

# The Impact of Environmental Certification on the Forest Products Supply Chain

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## **ACRONYM LIST**

FSC	Forest Stewardship Council
IIED	International Institute for Environment and Development
ISO	International Organisation for Standardisation
SABS	South African Bureau of Standards

## INTRODUCTION

As markets become more and more competitive new and additional criteria become critical for market success. This is most obvious when one considers how prices competitiveness is no longer adequate for winning customer orders. Other criteria that are becoming increasingly important are quality, design, variety and service. A more recent demand from customers, particularly in developed countries, is for environmentally sustainable products. In the forest products sector such customer demands have coalesced into the development of the internationally recognised Forest Stewardship Council (FSC) and International Organisation for Standardisation (ISO) environmental certification programmes. The ISO 14000 series offers a framework for the certification of environmental management systems, while the FSC system focuses specifically on forest management certification, along with other social and economic aspects of sustainable forest utilisation.

This report forms part of the IIED's research project into Sustainable Private Sector Forestry, and looks at the impact of environmental certification on the South African forest products supply chain. In the South African case environmental certification generally takes the form of FSC forest certification and chain of custody certification, although a few firms have chosen to obtain ISO 14000 certification. An initial round of research conducted by Sarah Roberts of the IIED, included the large forestry and milling groups in South Africa, namely Mondi, Safcol and Sappi, as well as a few manufacturers. This report is based on a subsequent round of research that aimed to expand the understanding of the impact of certification on the supply chain by focusing on other stakeholders along the chain. A total of 17 interviews were conducted, 14 in person and 3 telephonically, in KwaZulu-Natal, the Western Cape, Mpumalanga and the Northern Province. Respondents included B&Q's agent in South Africa, 10 timber products manufacturers<sup>1</sup> with FSC chain of custody certification, 2 manufacturers without FSC, a representative of Mondi and a representative of a smaller group of mills, as well as two companies that combined sawmilling and manufacturing activities. In addition the local SGS<sup>2</sup> office was contacted to clarify a number of issues around the certification process. The focus of the study was on FSC certification, and respondents were drawn from the SGS list of FSC certified firms. FSC currently has no following amongst South African retailers, and all respondents were thus drawn from stakeholders involved either directly or indirectly in the export market.

As will be highlighted, the FSC system of environmental certification has spread rapidly in South Africa. The high level of take-up of the system in South Africa is misleading, however, and cannot simply be taken to mean that FSC certification is being universally demanded by retail customers in South Africa's key export markets. Interviews with South African manufacturers suggest that the rise and spread of the FSC system in South Africa reflects a much more complex set of market dynamics and manufacturer expectations. At the same time, the highly concentrated nature of the South African forestry sector has facilitated the rapid spread of FSC throughout the country's timber products industry. The experiences of South African timber products manufacturers suggest that the future of the FSC system is far from certain. The continued relevance of the system will depend strongly on whether developed country retailers extend their support for the system, while its spread in developing countries is likely to be highly dependent on the shape of the wood and wood products industry in each country.

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<sup>1</sup> For an outline of the manufacturing units interviewed please see Appendix I.

<sup>2</sup> Until recently SGS has been the only FSC accredited certifier in South Africa. The South African Bureau of Standards (SABS) has now been accredited to provide FSC certification, but all of the firms interviewed were certified by SGS.

The aim of this report is to get to grips with the impact that FSC certification has had on the South African forest products supply chain, with particular emphasis on furniture and other value-added timber products manufacturers (DIY and houseware products). Central to understanding this is to understand *why* certain South African manufacturers have decided to obtain FSC chain of custody certification, and indeed, why others have not. We wish to understand how FSC spread through the South African industry, where the drive for certification came from, and what the expectations of FSC certification were. Next we look at the practical issues of FSC certification – how the system has been implemented in firms and what the barriers have been to the spread of FSC amongst South African manufacturers. Thereafter the report will look at the costs and benefits of FSC to certified manufacturers. Finally we will attempt to draw some conclusions about the overall sustainability of the FSC system.

### **INDUSTRY CONTEXT**

The South African forest products supply chain consists of local softwood and hardwood plantations, sawmills and manufacturers. Almost all materials used by manufacturers are locally produced, with the exception of some imported hardwoods. South Africa's main timber resource is commercially cultivated pine, although there are also significant plantations of Eucalypt hardwood species such as *Saligna*. In 1996 approximately 12% of South Africa's timber went to the furniture sector, making this sector a relatively small user group (IDC 1998).

The sawmilling sector is dominated by a number of large groups with interests in forestry and sawmilling, as well as related activities. These groups include Mondi, Safcol and Sappi. In addition there are a number of smaller sawmilling groups. Finally there are about 300 informal sawmills, usually referred to as "bushmills" that play an important role in meeting niche market demand (IDC 1998). Approximately 68% of softwood lumber sales<sup>3</sup> in 1999 came from formal sawmills, with the remainder from Low Cost mills and bushmills<sup>4</sup> (South African Lumber Index, January 2000).

South Africa's timber furniture manufacturing industry employs about 11 500 people (Finance Week, 9 July 1999), although the industry has experienced a significant loss of employment over the past several years, with about 5 000 job losses in the past three years. The value-added timber products sector on which this report focuses is divided into two main groups – firms focused on the domestic market, and producing mainly from particle board, and export-oriented firms manufacturing almost exclusively solid timber, mainly pine, and to a lesser extent, *Saligna* and other Eucalypt species. The domestic market is by far the most important market for local producers, accounting for 87% of production in 1996 (IDC 1998). However, environmental awareness is at an extremely low level in the domestic market, and research has shown that few retailers or domestic market focused manufacturers are even aware of the international drive for environmental certification (Dunne 1999). For the purposes of this study, therefore, the emphasis will be on timber product exporters.

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<sup>3</sup> This is from South African mills – total annual sales were 1 805 047 m<sup>3</sup>, with 151 448 m<sup>3</sup> coming from the formal sector. Another 71 759 m<sup>3</sup> came from mills in Zimbabwe.

<sup>4</sup> Bushmills are usually mobile sawmilling operations, while Low Cost mills are permanent small scale sawmills.

South Africa (or more correctly the Southern African Customs Union<sup>5</sup>) features twenty fourth on the list of exporters for Furniture and parts Thereof (SITC 821) in 1995, up from thirty sixth place in 1989. Although exports have been growing since the late 1980s, exports still account for only 13% of production (IDC 1998). Up until 1987 furniture exports did not exceed 3% of domestic production (Manning 1996). Exports are focused on pine knock-down household furniture (beds, wardrobes, desks and tables, for example), small houseware items (such as wooden kitchen utensils and ironing boards), DIY products (including shelves and doors), and increasingly, Saligna garden furniture. Key export destinations are the UK and Germany, although exports also go to other parts of Europe, the USA, Australia and the French Islands (including Mauritius and Reunion).

A key feature of South African furniture exports is their low unit value (Dunne 2000; Manning 1996). Some evidence of this is provided in Table 1, below:

**Table 1: British Timber Furniture Imports from Selected Countries (1997)**

<b>Imports to the UK from:</b>	<b>% of Trade</b>	<b>Unit Value (Euros/ton)</b>
France	3.7	5.2
Italy	15.0	4.6
Germany	7.9	4.6
USA	3.6	4.3
Croatia	0.4	4.0
Denmark	6.9	3.7
Indonesia	5.6	3.4
Chile	0.1	2.5
Malaysia	3.9	2.3
China	3.9	2.3
Poland	1.8	2.3
Canada	0.4	2.3
Brazil	3.7	1.9
<b>South Africa</b>	<b>4.1</b>	<b>1.7</b>

Source: Biggar, Morel & Sharma (1999)

It is of some concern that the unit value of furniture imported from South Africa is lower than that of any other country shown. Manning (1996:108) attributes the weak export performance of South African manufacturers to two factors: “the internal weaknesses of South African furniture producers, and ... inter-sectoral weaknesses (in the quality and availability of timber inputs)”. This is confirmed in other studies of the South African timber furniture industry (Dunne 2000; NPI 1995).

#### **THE SPREAD OF FSC IN SOUTH AFRICA**

It is well known that the FSC certification system has been driven in large part by B&Q, the UK hardware retailer, following a period of environmentalist boycotts of its products. Intuitively one might expect the system to have spread in two ways – horizontally and vertically. The horizontal spread amongst retailers would likely begin in the UK and then spread to Western Europe and other parts of the world. The system would spread vertically along the supply chain, with retailers meeting their FSC obligations to source from sustainable sources by putting pressure on their suppliers to obtain FSC chain of custody certification. This in turn would force timber product manufacturers to exert pressure on their timber suppliers to have source

<sup>5</sup> The Southern African Customs Union, or SACU, comprises South Africa, Namibia, Botswana and Lesotho and Swaziland. South Africa is by far the most significant economy in SACU.



forests certified. Interviews with South African timber product manufacturers suggest that there has been a limited horizontal spread of FSC and consequently less extensive vertical pressure from retailer to manufacturers than is often imagined. However, what cannot be underestimated is the crucial role of B&Q as a force for environmental certification in South Africa.

In South Africa the spread of FSC was clearly prompted by B&Q's history of sourcing pine products in this country, however, the spread of FSC extends beyond B&Q's presence in the country. B&Q's agent in South Africa, Alpine Trading, was instrumental in publicising the FSC environmental certification system. Notably however, this spread of information was not directed solely at B&Q's manufacturing suppliers and *their* raw material suppliers. Rather Alpine Trading, in conjunction with a large South African manufacturer that supplied B&Q organised a public seminar to provide information on the FSC certification system. Alpine Trading's early experience of promoting FSC was that the system spread slowly, and was initially regarded as something of a "money-making racket" by some firms. Nonetheless, B&Q's suppliers were under pressure to obtain certification if they wished to maintain the relationship, and as might be expected, the first firms to obtain FSC certification were predominantly B&Q suppliers.

Obviously, these early FSC certified companies could not have obtained certification without access to timber from FSC certified forests. As Alpine Trading put it, FSC is "a system that needs everyone on board to work", and very early on it became obvious that bringing the mills and growers on board was crucial to the successful spread of FSC in South Africa. In South Africa the timber growing and milling industry is extremely concentrated, with three groups – Mondi, Sappi and Safcol<sup>6</sup> – with interests in both forestry and milling dominating the sector. The process whereby FSC spread to the sawmills reflects quite clearly the 'push' down the supply chain by which one would expect the demand for environmental certification to spread from end customer to retailer to manufacturers to sawmills and finally to growers. Manufacturers, unable to obtain chain of custody certification without an FSC certified timber source, put pressure on the sawmills to obtain certification for themselves and their source forests. At the same time, certain export customers, particularly those in the UK or supplying the UK market were beginning to raise the issue of FSC certification, and this prompted both independent and group sawmills to put pressure on their source forests to certify. According to Alpine Trading, the "biggest breakthrough for the system in South Africa" was probably the decision of Mondi's single biggest sawn timber customer to go for FSC certification. Similarly Safcol was prompted to bring its sawmills into the FSC system as demand from its customers grew. For the first manufacturers to get chain of custody certification the biggest obstacle to be overcome was convincing the large milling and forestry groups of the value of FSC certification. In several cases manufacturing respondents reported that there was a delay in getting chain of custody certification as they waited for the key sawmills to get certified. However, while a representative of Mondi acknowledged the influence of pressure from customers on the decision to go for FSC certification, it should be remembered that sawn timber for value-added timber products manufacturing is an extremely small part of the milling groups' business. The relationship between value-added products manufacturers and the mills is often problematic for this very reason, with manufacturers complaining about a lack of attention to their needs on the part of the mills. It seems highly unlikely that FSC would have spread as smoothly as it did without a certain amount of incipient goodwill on the part of the mills. Moreover, in South Africa the certification of forests was relatively unproblematic, as good forest

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<sup>6</sup> It is important to note that in this paper we are focusing solely on the sawn timber divisions of the mills in question.

management principles were already in place, and source forests were commercially cultivated, rather than natural. Only Sappi was reportedly fundamentally opposed to FSC, and reluctantly began with FSC certification only when competitive pressure made it inevitable.

### **Box 1**

#### **Braecroft Timbers: Feeling the pressure to certify**

Braecroft Timbers is owned by Steinhoff International Holdings Ltd, and comprises five sawmills and two manufacturing units. The company has been focusing its attention on exporting for the past six years, and has felt the pressure to get FSC certification in the past two years. The five sawmills produce timber for the local and export market, while the manufacturing units produce shelving and other value-added products for the export market.

Braecroft is in the unusual position of viewing the pressure towards FSC certification from both a manufacturing and a sawmilling perspective, and it was pressure on both of these operating activities that prompted the company to apply for FSC certification. On the manufacturing side B&Q was a major customer, and was beginning to exert pressure to obtain FSC certification, while on the sawmilling side other South African timber products exporters were exerting pressure on Braecroft to obtain chain-of custody certification for its sawn timber.

As pressure for FSC was limited to the exporter market, Braecroft chose to certify only their two mills with adjacent export manufacturing units. The Weatherboard mill & factory were certified in June 1998 (as Weatherboard Sawmill of Braecroft Timbers Pty (Ltd)), and the Malenge mill & factory in September 1999. Of the two FSC certified mills, about 50% of the timber ends up in the export market.

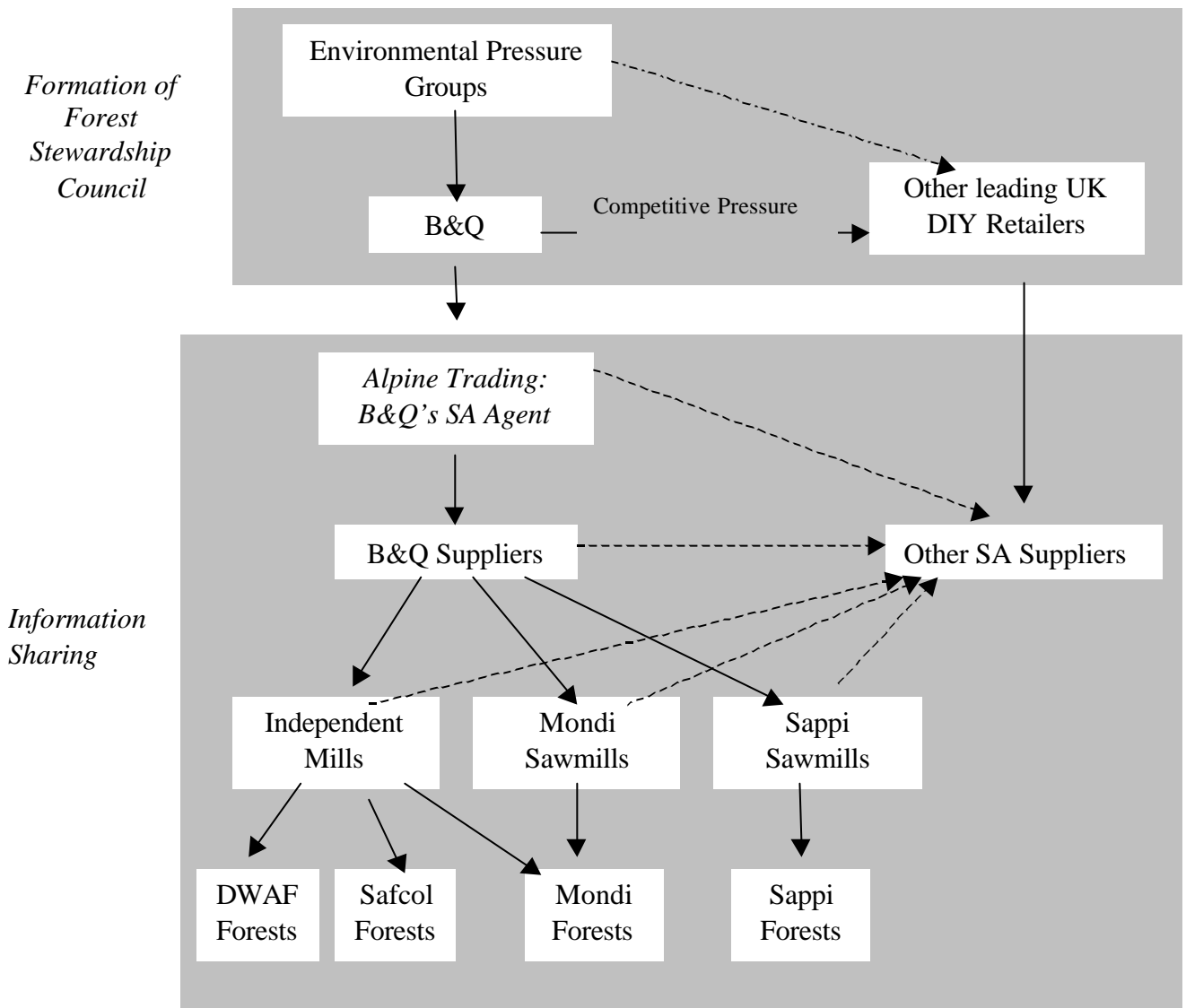
The company is still supplying B&Q, although FSC has not offered any specific market advantages, as “everyone has it”. But the company is sure that *without* FSC they would have lost access to this market. FSC has been a prerequisite for gaining other customers in the UK. However it has not had any effects on relationships in terms of price premiums, nor has it brought about long term commitments from buyers.

*Source: Interview with Jed Krige and Gary Chaplin*

Once the key mills supplying sawn timber to South African manufacturers were certified, the chain of custody certification process became much simpler for manufacturers, and a second round of certification amongst manufacturers, many of whom were *not* B&Q suppliers, ensued. Some of these manufacturers supplied B&Q’s competitors in the UK, who themselves were coming under pressure to meet the standard of environmental awareness set by B&Q. As one such manufacturer stated: “B&Q was the cause behind our certification: they set the standard, and our customers had to follow”. At the same time, once the sawmills were certified they began to promote FSC and encourage their customers to get chain of custody certification. The complex web by which the pressure from one UK retailer, B&Q, spread to manufacturers throughout South Africa is represented below:

**Figure 1:**

**Diagram Showing Spread of FSC in South Africa**



**INITIAL MOTIVATION**

As already argued, the initial spread of FSC in South Africa was predictably amongst manufacturers already supplying B&Q, although some of these firms supplied very little of their overall production to B&Q. B&Q made it clear to suppliers that by the year 2000 it would source only from FSC certified suppliers. B&Q is an important customer amongst South African DIY product exporters, offering high volume (although low price) orders, and B&Q's suppliers were generally prepared to get FSC chain of custody certification if this was necessary to maintain access to a potentially very lucrative distribution channel. While timeously meeting future B&Q environmental requirements was one aspect of the motivation to obtain chain of custody certification, another appears to have been the expectation of increased business from B&Q. Many South African manufacturers appear to have believed that FSC would provide an opportunity to capitalise on their existing relationship with B&Q and their ready access to sustainable, commercially cultivated timber sources to strengthen their position as a supplier to B&Q, and indeed to other major UK retailers. Whether this expectation was

realistic will be discussed in some detail in the section on the benefits of FSC certification.

**Box 2**

**TDM: Choosing the FSC route**

TDM is one of the larger timber products manufacturers in South Africa employing 680 people. The company produces house doors for the import and export market. The primary export market is the UK, while exports also go to the USA and Australia.

TDM was a forerunner in the South African drive for FSC certification, and has been certified for about 3 years. The company has an ongoing interest in environmental issues, so invested time in getting key players along the supply chain (mills and forests) involved in the process. In South Africa FSC was ‘sold’ to the mills and growers by manufacturers who had been made aware of FSC by their end markets. Although TDM supplies B&Q, the primary motivation for obtaining FSC certification was to improve the company’s general reputation on environmental issues, rather than simply to respond to market pressures. There was never any question about a choice between FSC and ISO 14001 as an environmental system – ISO is seen as ‘a set of rules about how to write rules’, while FSC is a simple ‘pass or fail’ system. The company does have ISO 9001, and has been certified since 1981.

When TDM was certified there was no accredited certifier in South Africa, and the company was forced to use SGS from the UK. This proved extremely expensive, as the cost of assessment was paid in pounds. SGS has subsequently opened an office in South Africa, and the cost of certification is now much lower.

*Source: Martin Scharf*

There appears to be a number of reasons why firms *not* supplying B&Q have chosen to obtain FSC chain of custody certification. For a few manufacturers, environmental concerns were the primary reason for certification, and indeed, this is equally true of firms that *did* supply B&Q. Amongst this minority of firms environmental concern predated the introduction of FSC, and firms were eager to have a vehicle by which their environmental awareness could be publicly recognised. In truth timber product firms had an option of ISO 14000 or FSC as a means of formalising their environmental policy. FSC appears to have been the favoured option for a number of reasons. Firstly, market signals were clearly pointing to FSC as being the favoured environmental certification programme in the key South African export markets. Secondly, ISO is viewed with some scepticism amongst many manufacturers, and is often viewed as a “set of rules about how to write rules”, making it a poor vehicle for expressing environmental awareness. Finally, FSC is a simpler system, and certification costs are lower than is the case with the ISO 14000 series<sup>7</sup>.

Another reason why firms not supplying B&Q decided to get FSC was the perceived *marketing* benefits. B&Q, through its local agent, was very successful in publicising the FSC system in South Africa. Interviews suggest that manufacturers were left with

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<sup>7</sup> In the section titled “The Costs of Certification” an approximate figure of R10 000 (excluding transport expenses) is given for the cost of the initial audit and registration fees for FSC chain of custody certification in a hypothetical firm employing less than 150 people. Discussions with SGS set the cost of the initial audit and registration fees for ISO 14001 in the same hypothetical firm at approximately R23 000.

the impression that FSC would rapidly become a very real pressure, and that firms without FSC would soon be unable to supply the UK market. Indeed, FSC *has* spread to other DIY retailers, particularly in the UK, but also in Germany and the USA. Apart from B&Q, UK retailers asking for FSC include Homebase, Wicks, Great Mills and Metpost, while Bauhaus in Germany and Home Depot in the USA are also requesting FSC certified products from South African manufacturers. Firms assumed that the demand for FSC certification would spread amongst retailers, ultimately causing FSC to become an industry standard. Under these circumstances it is rational for firms that have not come under pressure from their buyers to obtain FSC certification to nonetheless do so. As one manufacturer put it: "We got certified to maintain our supply position down the line". In this view FSC certification is considered a potential trade barrier that might conceivably exclude South African manufacturers from the UK and other European markets. South African timber products manufacturers operate in a highly competitive market segment, with Brazil and Poland strong contenders in the developed country export market for low cost pine products. South African manufacturers were aware that FSC was positively regarded in the UK market, and were keen to be able to use FSC certification to differentiate themselves from competitors (both within and without South Africa) even if customers were not actively asking for FSC. This is part of the expected effect of FSC – as FSC certification spreads, (and consequently as the FSC symbol becomes more widely recognised) it becomes a useful marketing tool. In the early stages this serves to set manufacturers apart from their competitors, although the anticipated end of this process would be that competition forces manufacturers to obtain FSC certification simply to avoid being the 'odd firm out'.

#### **THE LOGISTICS OF FSC CERTIFICATION**

FSC certification can be differentiated according to two criteria: the activity of the enterprise in question, and the sourcing policy of the enterprise. In the first instance, FSC certification in the true sense applies to timber growers; all other stakeholders along the forest products supply chain apply for a chain of custody certificate that in essence confirms that their products are sourced from an FSC certified forest. While the research from this report did not cover any growers, respondents were well aware that the true burden of FSC certification lies with the forest. FSC certification of forests looks at a complex set of environmental and social concerns that extends beyond simply whether harvested timber is being replaced, to consider the way in which forests are established and managed, and the environmental and social implications of forestry decisions. Chain of custody certification on the other hand is concerned with ensuring that a firm can trace the source of its timber to an FSC certified forest. As such it is a simple system, described as "a book-keeping system" that required "documentation changes" and "a rubber stamp".

The sourcing policy of the firm has a huge impact on how easily FSC chain of custody certification can be integrated into existing factory practices. Firms wanting FSC chain of custody certification can opt for the fully certified system or the dual system where the enterprise is allowed to handle both FSC and non-FSC timber. A dual system is considerably more complex to administer, and requires procedural changes within the factory in order to ensure that FSC and non-FSC timber is not mixed during the production process. While the latter system is clearly more complicated a number of firms choose to operate in this manner, largely in order to ensure operational flexibility. For the first firms in South Africa to obtain chain of custody certification, access to sufficient FSC certified timber was obviously a worry, and some firms chose to use non-certified timber for those customers not yet asking for FSC certified products. Over time this concern has largely evaporated as more and more of the large mills and plantations groups have obtained FSC certification. Respondents

running the dual system were in fact sourcing far more FSC timber than required by their order book, simply because their larger timber suppliers were now supplying only FSC certified timber. For other respondents running the dual system was necessary to accommodate subcontractors who produced certain components or products on their behalf. Similarly, certain dimensions of timber are produced only by the small, independent “bushmills”, which have been slow to obtain FSC certification.

As we have said FSC chain of custody is a relatively simple system to implement, and was perceived as relatively unproblematic by most of the firms interviewed, although the process is obviously more complex for firms running the dual system. Similarly, the first firms to get certified in South Africa faced a number of additional problem relating to lack of information on FSC certification, a smaller pool of certified timber and the added burden of convincing the South African mills that certification was necessary and in the mills’ interests. FSC dovetails with the requirements of the ISO 9000 and 14000 series, with six of the ISO 9000 requirements reportedly also required for FSC. The overlap relates to the fact that FSC chain of custody certification is concerned largely with the traceability of timber, while ISO focuses on introducing systems to monitor quality or environmental performance. Firms that were ISO certified generally found FSC relatively easy to introduce in their factories, with most integrating FSC and ISO into one paperwork system.

How firms went about preparing for certification seems to depend very much on the level of prior knowledge and understanding of the FSC system. At it simplest, a manufacturer reported spending just twenty hours preparing for FSC certification, while other firms assigned the task to a dedicated employee for several months. As might be expected, running a dual system requires more time to set up, as more detailed paperwork and procedures are required to keep FSC certified and non-certified timber separate throughout the production process. The problems of the dual system should not be underestimated, with one mill describing the introduction of non-FSC material into the mill as “a nightmare”, with the process of keeping FSC and non-FSC material separate “painful and laborious”. A few firms hired a consultant to advise on the implementation of the FSC system, although this seems to be largely unnecessary. Unravelling why some firms find FSC very easy to implement while others find the process more complex is important if one is to promote the spread of FSC, especially to smaller, less sophisticated firms. One manufacturer suggested that the problem in South Africa’s relatively unsophisticated SME dominated timber products industry is that:

“the average manufacturing operation is not oriented to paperwork, and manufacturers are unsure of how to document procedures on paper”.

As will be highlighted, this lack of information on how to implement FSC is a common complaint of the firms interviewed.

A final aspect of the introduction of FSC that needs to be considered is the need for training. Firms operating a full FSC system generally did not find it necessary to introduce any formal worker training in order to secure its implementation. This system does not require any changes in production procedures, and thus has had little impact on most production workers. One manufacturer employing over 1000 people stated that only a dozen people were involved in maintaining the FSC system, including security personnel (who control access to the premises), checkers and administration staff. Some firms operating the dual system did however report that it caused some confusion amongst workers. For firms running the dual system some training is necessary, as workers must understand the need to keep certified and non-certified timber separate. While there was no worker resistance to the FSC system, the dual system reportedly caused some confusion, as it was not always clear to workers why seemingly identical timber should be treated differently.

## PROBLEMS WITH FSC

Despite the relative ease with which the FSC system can be introduced and maintained, respondents identified a number of practical and conceptual problems with the system.

Firstly, as mentioned in an earlier footnote, there has, until recently, been only one company (SGS) accredited to provide FSC certification in South Africa. The first firms to be certified relied upon the services of SGS's European offices, and only once it became clear that FSC was a growing phenomenon amongst South African timber product manufacturers did SGS open local offices. While firms were generally happy with the service given by SGS during audits, the complaint was made that having only one accredited certifier in South Africa brought unnecessary delays to the process of certification. Manufacturers have reportedly faced long delays (of up to three months) between assessment and issuance of a certification number. Unacceptably long delays have also been experienced by firms awaiting approval of product labels. Similarly, some firms are concerned with the costs of certification, and feel that competition amongst accredited certifiers might lower costs. The accreditation of a second South African company (SABS) to provide FSC certification is likely to force both SGS and SABS to provide higher levels of service, although it is too early to access the impact of the second accredited auditor.

Labelling of FSC products is an issue of broader concern to respondents. All product labels bearing the FSC insignia must be approved by SGS in the UK, and as mentioned, this can mean unacceptable delays for manufacturers. Particularly when retailers are offering specials, the lead time between when orders are placed and when delivery is expected can be quite short, and a delay while labels are approved can mean a lost order. Another problem with labelling concerns the controversy over defining what constitutes an FSC product. In the past, in accordance with the regulations governing the FSC certification system, a product could only be certified if it originated in its entirety from FSC certified inputs. In effect this meant that products (such as hollow doors) using currently uncertified (and indeed difficult to certify) materials such as plywood, chipboard and masonite cannot be FSC certified, even if the bulk of inputs are FSC certified. In an extreme case a solid pine ironing board might not qualify as an FSC approved product because it contains non-certified dowels. This situation seems to be changing however, with several respondents reporting moves underway to introduce a percentage-based system of FSC certification. Respondents produced two examples of how this would be done. In the one case the label would indicate the percentage of FSC material, and might detail the source of other materials in the product. In the second case, where the percentage of non-FSC material is very low and difficult to determine, manufacturers are planning to use an FSC label that simply adds "*The dowels in this product are not FSC certified*". Several respondents complained that they were unsure of how to implement the new labelling system, and indeed, whether it was permissible under current FSC rules. No clear guidelines had been given of what the new labels should look like, and at least one respondent had simply prepared a prototype label for and submitted it for approval.

The wider issue underlying some of the labelling problems is one of information, and this was identified by a number of manufacturers as being a weakness of the FSC system. In the first instance, many respondents reportedly had great difficulty in finding information on how to go about preparing for FSC certification. Respondents did not always know who to contact about FSC in South Africa, and found that there was a dearth of information on how to go about preparing the necessary paperwork. Notably, and despite the role often attributed to B&Q in the upgrading of its suppliers, B&Q reportedly offered little or no practical information or assistance towards

obtaining FSC certification. The issue of what the new labelling system will mean for the layout of labels is another example of the lack of readily available, reliable information on FSC. While there might be information readily available from the FSC organisation overseas, this knowledge is clearly not spreading to the forest products sector in South Africa.

Finally, a number of respondents raised some conceptual concerns over the FSC system. FSC is perceived as a system designed to address the issue of sustainable management of tropical forests, and, as one manufacturer commented, “how much value FSC adds to the environmental movement in South Africa is questionable”. For stakeholder in the forest products supply chain genuinely concerned with environmental issues, the emphasis on FSC amongst UK retailers seems to divert attention from the broader issues of environmental awareness. At the same time, FSC is only gaining attention in a small number of subsectors of the forest products sector. While the system has gained world-wide attention in the DIY and garden furniture sectors (where tropical hardwoods typically dominate) little or no pressure has been felt in the household and structural timber subsectors. There is the feeling that if FSC is really to have an impact it must be applied across the range of subsectors.

Another concern of respondents regards the ability of the FSC organisation to ensure the integrity of the certification system in some developing countries where bribery is reportedly rife. As one manufacturer with a background in the timber industry stated:

“It is a real concern that FSC could be manipulated by unscrupulous operators who are prepared to buy and sell FSC certification. The FSC logo must be protected and genuine if it is to be sustainable. A guy with enough money shouldn't be able to buy FSC.”

More specifically, the dual FSC system that allows non-FSC material into the plant is regarded with some scepticism, as it would appear to be reasonably easy to “cheat” on this system. SGS provides advance warning of their regular audits, and a firm would conceivably have time to ensure that it is dealing properly with non-FSC material by that time.

Problems with FSC need to be addressed if the system itself is to be sustainable. Practical problems slow down the spread of FSC, and build intra-industry resistance to the system. Even more worrying are the conceptual problems with FSC which have the potential to undermine the reputation of the system, thereby jeopardising its future.

### **THE COSTS OF CERTIFICATION**

The costs of FSC certification have been difficult to ascertain with any accuracy. There are obviously a number of direct and indirect costs involved. The most obvious direct cost is that of the accredited certifier. Additional costs may accrue if a firm chooses to hire a consultant to prepare for certification, or to appoint or reassign a dedicated staff member. Indirect costs include the need to change to FSC certified suppliers, and any possible premiums charged on FSC timber.

SGS certification charges vary according to the size of the company and the complexity of its operations. Larger, more complex firms take longer to assess, hence the higher costs. Two audits a year are required to maintain certification. For a firm with less than 150 employees and a low level of complexity SGS estimates that the charge of the initial audit would be approximately R9 800, which includes the FSC registration fee (for registration of the FSC certification number) of about £380<sup>8</sup>.

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<sup>8</sup> The exchange rate at the time of writing was approximately R10 = £1



This tallies with the more reliable information from respondents, which suggested a charge of R10 000. However, on top of this basic charge is the transport cost (from the auditor's base city to the manufacturer), which averaged at about R2 000 per visit to a firm in KZN. Many smaller manufacturers find the charge of certification excessively high, and SGS has two schemes that allow firms to reduce the cost of certification. The small business option is designed for firms with less than 10 permanent employees, which require less time to certify and are charged at a lower rate. The group scheme (used by grower co-ops, for example) works out cheaper because firms share one FSC registration number, and hence one accreditation fee (paid in pounds). In addition, the two audits per year are shared between the sites (i.e. out of three sites, only two would be audited in any one year, a different one at each audit), which also reduces costs.

The other cost issue which warrants discussion is the indirect costs associated with changing suppliers and any possible premium charged on FSC certified inputs. Timber products are very price sensitive, and any price premium on FSC timber would be potentially problematic. However, whether there premiums *are* in fact charged for FSC timber has been extremely difficult to determine, with contradictory evidence coming from those interviewed. While several manufacturers suggested that there is no difference in the cost of FSC and non-FSC timber, other estimates suggested that FSC timber costs between 6% and 40% more than non-certified timber.

On balance, a good case can be made for that fact that there is no premium charged on FSC timber *per se*. Price differentials are more accurately accounted for by three variables: the availability of timber, the size of the mill, and a period of adjustments within the timber industry in South Africa. Initially there were fears that there would be a lack of FSC timber available on the South African market, and that this would inevitably push prices up. This does not seem to have been the case with pine, with certification of the major mills providing an adequate supply of FSC certified timber. Any price differentials cannot therefore be explained by a shortage of certified timber. However, Saligna manufacturers are coming up against chronic timber shortages. Saligna is a species of Eucalypt that has rapidly gained prominence in overseas markets as a sustainable hardwood alternative to tropical hardwoods. The supply of Saligna has come under great pressure recently, with some manufacturers actually having to halt production for a short period due to a lack of timber. Saligna has been particularly linked with FSC due to its use in the DIY and garden furniture subsectors, and its particular position as a replacement for less sustainable hardwoods. The pressure for FSC Saligna might be expected to create even more pressure on those mills certified to supply FSC Saligna, and this might well have led to price increases.

While the South African forestry and milling industry is clearly dominated by large firms, small 'bushmills' none the less play an important part in the industry. Many manufacturers source from more than one mill, in part because certain mills will add value to timber (for instance by manufacturing certain components), and in part to follow availability or lower prices. However, not many of the smaller mills are FSC certified, and FSC chain of custody certification may force a change in the certified firm's supply base. Small mills are widely recognised to charge less for timber, or at the very least to be more flexible in price negotiations. As a firm shifts to FSC certified timber sources decreased flexibility in choosing suppliers might raise overall timber costs, and may be perceived by the manufacturer to be the result of more expensive FSC certified timber. One manufacturer who did not actively source FSC timber reported a 15% price differential between mills, and this was largely attributed to the size of the mills. It was suggested that larger mills have favoured FSC as it affords them some protection from small low cost mills, although such allegations are purely speculative. What is clear is that more and more independent mills are investigating

the possibility of FSC certification, as are small independent growers. However, the cost of certification remains a major burden for such enterprises.

Finally, the timber industry in South Africa has recently undergone a period of adjustments as Safcol, the state-owned forest company began the process of commercialisation, with an accompanying end to the subsidies which had long benefited South African timber users. It is estimated that the log price has doubled in the past five years, bringing it to an internationally competitive rate. A persuasive explanation for the perception that FSC has increased timber prices is that FSC has been introduced to South Africa at a time when the industry was undergoing a natural adjustment that led to huge price increases. Any price premium specifically associated with FSC has simply been lost in these increases.

### **THE BENEFITS OF CERTIFICATION**

Amongst some of the first B&Q suppliers certified there seems to have been the expectation that B&Q would 'reward' their rapid certification by transferring business from non-certified manufacturers. However, these 'first comer' benefits did not materialise. B&Q instead made it a policy to work with suppliers, and not to penalise them in the short term for not having FSC certification. The story was related of *Firm Z*, a South African firm that supplied B&Q, and was quick to respond to the call for FSC certification. The company assumed it would get more of B&Q's business once it obtained FSC certification, however, B&Q's perspective was that it was not 'in the spirit of FSC' to prejudice other suppliers before the year 2000 deadline. *Firm Z* complained to B&Q, and ultimately the relationship ended.

FSC certification has also not had the effect of giving South African manufacturers access to a whole new range of customers. Two viewpoints have emerged from the interviews. The first sees that the demand for FSC has been slow to spread in the UK and European markets, and that having FSC has therefore not made South African firms particularly attractive as suppliers. The second viewpoint suggests that the major players in the UK, and increasingly the German markets demand FSC, and that manufacturers have no choice except to comply. According to this viewpoint "everyone has it" (FSC), and a firm is simply "not in the game if you don't have it". What accounts for the different experiences of South African manufacturers is probably the retailers they target. As one manufacturer pointed out, FSC "is not a big deal with the 'mama and papa' stores in the UK or Germany", while conversely, the larger chain in these countries are more prominently in the public eye, and are forced to conform to the demands of vocal interest groups.

What is unanimously agreed upon is that FSC offers no price premiums. The message reportedly received from retailers was that "green is good as long as it doesn't come at a premium". There is clearly some inconsistency between public demands for environmentally sustainable manufacturing and the willingness to pay a premium for such products in the end market. Many respondents remain convinced that the end customer is more concerned about price than environmental issues and that far from being a reflection of the demands of "the man in the street", FSC is a response to the demands of a vocal and media-savvy minority. At the same time FSC certification has not meant a commitment to long term purchasing on the part of buyers, as price remains a crucial determinant of competitiveness.

Despite the above, it would be incorrect to assume that FSC certified firms in South Africa are extremely negative about the FSC system. While they might not have seen concrete improvements in their market position, many manufacturers feel that "certain doors were closed to us because we didn't have FSC", or that FSC "prevents doors

being closed on us, although it doesn't necessarily open new doors". Some firms have indeed seen benefits from FSC certification. Some firms feel that having FSC certification has made them more attractive to prospective customers, and others report getting orders for new products from existing customers as these customers try to move away from non-FSC certified suppliers, particularly in Asia. As mentioned, new opportunities appear to be opening up for Saligna manufacturers as environmentally concerned retailers search for sustainable hardwood products. Without exception the respondents did feel that FSC would spread, at very least in the UK and in parts of Europe. In general, FSC certification alone appears insufficient to command new business, but combined with an existing relationship with a customer sourcing FSC products, adequate manufacturing capacity or a specific position in the industry (such as in the Saligna subsector), FSC undoubtedly can offer market benefits.

### **Box 3**

#### **David Egenes Timbers: Winning with FSC**

David Egenes Timbers began operating in 1990, and currently employs 1100 people and has an annual turnover about R110 million, making it one of the largest timber products manufacturers in South Africa. The company produce 100% for the export market, and export to most EU countries, the USA and Australia. They produce DIY products (bookshelves, shelving and garden furniture), predominantly in pine, although some Saligna is used. The company purchases R45 million of raw timber per year, of which R30 million is purchased from Mondi.

The company's customers are mainly DIY retail stores, and it was retail pressure that drove the company to obtain FSC certification. David Egenes Timbers saw a gap in the market and reacted quickly, becoming one of the first South African manufacturers to get FSC chain of custody certification. FSC certification was delayed while the company waited for Mondi, their key supplier to obtain certification.

While there is no price premium associated with FSC, David Egenes Timbers *has* benefited from FSC certification. The company has seen increased business due to its FSC certified status, specifically as a result of orders for new products placed by existing customers. Garden furniture has typically come from the East (especially Malaysia), and South African manufacturers could not compete. However, once B&Q decided to purchase FSC certified products they could no longer purchase from their traditional sources, and looked to South Africa for a sustainable source of timber, especially hardwood. David Egenes Timbers has set up a new factory, which employs 500 people, solely as a response to the demand for FSC certified garden furniture. Turnover has doubled as a result of new FSC lines. The company was able to benefit from FSC because of its existing reputation as a reliable supplier, and its ability to rapidly expand its already considerable production capacity.

*Source: David Egenes*

Finally, Alpine Trading, the South African agent for B&Q pointed to an additional and unexpected benefit of FSC certification inherent in the transparency it brings to the supply chain. Because all certified products are clearly marked with the manufacturer's certification number, it becomes easier to monitor quality standards. The identification number means that defects can be traced back to the manufacturer, whereas before it might only be possible to identify that a defective product came from

South Africa. At the same time, a *manufacturer* identified this same issue as being problematic, as customers are able to walk into a competitor's store and determine by the FSC certification number whether a particular supplier is also supplying its competitors!

#### **THE FUTURE OF FSC CERTIFICATION**

It is important to recognise that the pressure for FSC certification has not been applied evenly across the timber products sector. As highlighted, pressure appears to have been concentrated in the DIY and garden furniture subsectors, probably because these are subsectors where tropical hardwoods traditionally play a large role. At the same time, even within these subsectors relatively few retailers (mainly the large chains) are actively sourcing FSC certified products. Manufacturers in the DIY and houseware subsector considered FSC certification a growing trend (even if they had yet to experience any direct pressure for certification). However, manufacturers producing other timber household furniture such as beds have yet to see any talk of FSC certification in their subsector, and have seen little evidence that FSC certification will become a dominant issue in their markets in the near future. It would also seem that greater pressure is being felt to find FSC certified sources of hardwood, as hardwood is more likely to come from an unsustainable natural forest source than is softwood such as pine. South African manufacturers producing with *Saligna* see new market opportunities emerging as they attempt to position *Saligna* as a substitute for unsustainably harvested hardwoods such as teak.

#### **Box 4**

##### **Woodstreet Furniture Manufacturers: How widespread is FSC?**

Woodstreet is a family-owned company that was established 11 years ago, and employs about 100 people. The company is a dedicated exporter, and the primary export market is the UK (accounting for about 60-65% of production). The product range consists primarily of pine bedroom furniture.

Woodstreet first heard about FSC about 2 years ago, and were initially very concerned, as the sense was that it would spread very quickly in the UK market. However, B&Q was the company's only customer to set down a strict timetable for implementing FSC sourcing. Woodstreet no longer sells to B&Q, and are not feeling any pressure for FSC certification from other buyers. Other buyers have mentioned FSC, but they are not calling for it yet. There has not been any significant pressure from the continent for environmental certification, although the German market places great emphasis on other environmental issues such as recyclable packaging and water-based lacquer. In the company's market segment safety standards are very important in the European market (for bunk beds, for instance).

Woodstreet is currently preparing for ISO 9001 quality certification. The company started the process two years ago, hoping for a competitive edge, but while ISO has not delivered to full expectations in this regard, benefits in terms of production efficiency have been significant. The company has included FSC in the ISO quote, but are holding off on making a decision on FSC until the end.

*Source: Vijay Naidoo*

Given the relatively limited spread of FSC amongst UK buyers, essentially the nucleus of the drive for FSC, it is not surprising that pressure from European and other buyers has been even more limited. Once again, while European buyers are reportedly aware of FSC, only one or two large German chains are actively sourcing FSC products. However, manufacturers supplying the European market are coming under pressure over a range of other environmental issues (such as recyclable packaging and water-based finishes in the German market). At the same time the USA market is generally perceived as being averse to FSC, although the largest USA DIY retailer, Home Depot has recently followed the example of its UK counterparts and begun to source FSC products. Some buyers appear to be opting for the ISO 14000 environmental management system over FSC. At least one interviewed manufacturer had experienced this in a specific context:

“Our USA clients were not asking for environmental certification, but made it clear that they definitely didn’t want FSC. They preferred the ISO 14001 option.”

A number of manufacturers who are currently in the process of obtaining, or investigating quality and environmental certification through an SME support programme indicated that they were planning to include ISO 9000, ISO 14000 and FSC in their certification drive. However, ISO 9000 was considered the priority by these firms. In general, respondents felt that the momentum of FSC certification had been slower than expected. As one manufacturer put it:

“Initially it was said that if a company didn’t have FSC by 2000 it would be difficult to supply into the UK market. Now there is the sense that pine will take another 2-3 years to get to that stage, and hardwoods another 3-5 years”.

The above discussion raises questions about the future of the FSC system. Part of the problem appears to be that FSC has been driven by a small pressure group, rather than by widespread public demand. While pressure groups might be effective in convincing large retailers to adopt new environmental measures, they have much less impact on small independent retailers. At the same time, pressure is only being applied on retailers in certain subsectors. As one manufacturer put it: “FSC should be a blanket approach, because only then does it serve its purpose”. However, as was understood by most of the respondents, the FSC system is more concerned with, and better suited to the conservation of tropical forests. As such FSC may be largely irrelevant in other forest products subsectors. If this is the case, it may become apparent that FSC has limited use as a vehicle for widespread environmental certification. It would be presumptuous to assume that FSC will automatically become the industry standard for environmental certification: as argued, some retailers may prefer ISO 14000, while others are focusing on national standards that extend beyond the forest focus of FSC certification.

## **CONCLUSION**

South African manufacturers seem to have mixed feelings about FSC. The hope that FSC would yield concrete benefits in the form of either price premiums or higher levels of demand proved false. Yet few respondents seem overtly negative towards FSC, and it is widely believed that FSC will spread in overseas markets, and that FSC certification will become increasingly important for South African exporters. Resistance to FSC seemed to focus on the cost of the system, which whilst not exorbitant, might impede the spread of FSC certification to small growers, sawmills and manufacturers.

The whole idea of FSC certification seems to be surrounded by an aura of publicity that has obscured the actual level of demand for it in the marketplace. While casual

discussions with manufacturers suggest that FSC certification is vital for ongoing access to the European, and particularly the UK market, in-depth interviews have made it clear that by no means all manufacturers are feeling direct pressure to obtain FSC certification. FSC certification is still in its infancy, and limited predominantly to the DIY and houseware segments of the UK market. The business world is profit-oriented, and many manufacturers perceive that FSC, despite its laudable goals, is, from the perspective of the retailer, simply a marketing exercise. The spread of FSC is dependent on other retailers concluding that those retailers that have gone the certification route are in fact capturing benefits from the process. Furthermore, environmental concerns are just one of the criteria demanded by customers, and the general consensus seems to be that even in the UK, it is by no means the most important. Price, quality, structural integrity and packaging often outweigh environmental concerns. What will happen with the FSC system in the future remains to be seen, but what does seem clear is that the FSC system has some way to go before it can claim to be the answer to environmental concerns in the forest products sector.

Having said this, it is worth concluding with a note of caution. As has been pointed out, the spread of FSC certification has been strongly tied to specific market segments, and this might well have skewed the picture of FSC certification that can be drawn from the South African forest products sector. On the one hand, South African timber products exports are strongly focused on the DIY and knockdown pine furniture markets. Perhaps more importantly however, evidence suggests that South African timber product exports are focused in low-value market segments, where price will invariably be the most important determinant of competitiveness. In the long term the spread of FSC certification might well lie in a very different market segment, where price has less bearing on competitiveness, and where manufacturers need to constantly find new ways of adding value to, and differentiating their products.

### Appendix 1: Details of Timber Products Manufacturers Interviewed<sup>9</sup>

Company	Annual Turnover	No. of Employees	Product Range	Main Markets	FSC Certified?
Firm A	R12-R15 million	100	Knock-down pine bedroom furniture	UK, Reunion, Dubai, Kuwait, Germany, France	No
Firm B	-	680	Interior and exterior house doors	UK, USA, Australia	Yes
Firm C	R9-10 million		Pine beds & cabinetware	All exported – mainly to UK	No
Firm D	R6 million	60	Saligna garden furniture	2/3rds of production exported - Germany, Israel and Scandinavia	Yes
Firm E	R30-36 million	140	Pine kitchen & houseware	40% exports – UK, Germany, Italy, Switzerland, France, Australia	Yes
Firm F	-	225	Pine kitchen, bathroom and bedroom doors	UK, Europe, USA and Australia	Yes, also ISO 14000
Firm G	Existing company only recently turned to export.	97	Pine and Saligna garden benches, pine shelves	UK	Yes
Firm H	R15 million	140	Pine shelves, tables and chairs, desks and TV stands	UK, France, Reunion, Australia, West Indies	Yes
Firm I	-	200	Pine shelving and related DIY products	UK, USA, Japan	Yes
Firm J	R110 million	1100	Pine & Saligna DIY	Most EEC countries, USA, Australia	Yes
Firm K	R12 million	60	Saligna garden furniture	UK, Germany	Yes
Firm L	R60 million	200	Pine doors	UK, USA	Yes
Firm M	R12 million	140	Pine DIY products	60% exported, all to UK	Yes
Firm N	New company	40			

<sup>9</sup> This table refers only to manufacturing activities. Where firms are also involved in other activities, the information given refers only to manufacturing activities e.g. turnover from manufacturing activities, export destinations for manufactured products.

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