Executive Summary

Improving Market Access for Central American Certified Forest Products

Case Study: Costa Rica

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Executive Summary

Introduction

Costa Rica has six Forest Management Units certified by FSC (the Forest Stewardship Council)—two with natural forests, three with forest plantations, and one with both. A much greater potential exists. Ten companies with between 1,500 to 7,000 has. of plantations each and at least three organizations of small and medium-sized producers can access certification in the medium term, representing a total of about 55,000 to 60,000 has. In addition, at least three companies that manage another 35,000 ha. of natural forests could be certified in the medium term. The technical team concluded that Costa Rica has an enormous potential to increase the number of certified Forest Management Units and reach a production volume of at least 520,000 cubic meters annually of certified wood. The attached report summarizes the actual situation, the key problems, and gives conclusions and recommendations.

Background

Institutions and Forest Sector Policies

Forest policy in Costa Rica has developed in four phases:

1. Before 1969, forests were considered an obstacle to development and thousands of hectares were cleared for agriculture and pasture per government policy,

2. The first forestry law (No. 4465, Nov. 1969) protected the forest industry and established controls on forest use, and incentives for reforestation.

3. The passage of forestry law No. 7032 (1986) that required forest management plans for forest utilization, widened forestry incentives, and increased participation in decision-making.

4. The third forestry law No. 757, passed in 1996, has proved an effective instrument to develop the sector and counteract the negative policies favoring agriculture. It (i) established protected areas, (ii) regulated private forest lands and plantations, and (iii) subsidized plantations and natural forest management. The four principal innovations of the new law are the following: (i) payment for environmental services through taxes on fossil fuels, (ii) definition of the role of the state as a

facilitator for private activities and in the protection and control of forests, (iii) the delegation of responsibilities to other actors, and (iv) loosening of forest regulation to favor the cultivation of trees.

Forest Management

According to a 1996/97 study, forty percent of the territory in Costa Rica, or 2 million hectares, was covered with forests (primary, secondary, and forest plantations). The deforestation rate was 1.14%. Of this area, sixty percent is within the System of Protected Forest Areas (1.2 million ha.) with over half a million hectares of this within National Parks or Biological Reserves. In addition, about a third of forest lands (650,000 ha.) are privately owned. Of this, about 235,000 hectares are under two government programs: (i) 200,000 ha. in “Payment for Environmental Services” which does not allow cuts during a five year period in which government payments are made to the owner, and (ii) another 35,000 under natural forest management. The authors suppose that in the next 10 years, not less than 50% of privately owned forests will be subject to sustainable forest management and forest certification at a national or international level. Finally, there is 138,200 ha. of lands reforested between 1979 and 1999. More than 40% of this land is owned by about 20 companies, about 10 of which have an interest in forest certification.

The Forest Industry

The last diagnostic done of the wood industrial sector (1995) showed that in the period 1990-1993 there were 185 companies involved in primary transformation (86.5% sawmills and the remaining, factories of doors, windows, frames and veneer) and about 630 companies in secondary transformation (64.3% manufacturing furniture and accessories for the home and office). The primary industry processed annually about 1 million cubic meters of round wood. In the last several years, the forest industry has been coping with a reduction in the supply of the well-known “high value” species and a reduction in the dimensions of primary material, using smaller and smaller logs. The supply from forests subject to “Management Plans” varies between 250,000 to 500,000 cubic meters annually. The balance is made up of wood provided from agro-forestry, plantations, and imported from Nicaragua and other countries. In 1999, about 200,000 cubic meters of round wood will be provided by forest plantations.

Only 8.8 percent of companies in primary transformation are considered medium or large in size, and only 3 percent of those in secondary transformation are in the larger classifications. The great majority of the industry is small with a low capacity for investment, lack of technical standards, standardization of products and quality criteria. Size limitations, combined with limitations on technical resources and attractive financing, severely limit development of the sector.

Exports: Most Costa Rican exports are provided by about 3 major companies. Exports jumped from an average of about US$16 million between 1989 and 1993 to about US$60 million in 1998. About 61% of exports go to North America, 19% to Central America, and 20% to Europe, South America and Asia. Doors and frames make up a large bulk of the exports.

National Programs for Wood Trade: There are two organizations that pull together the private forest sector and develop national programs for wood commerce and trade, especially the promotion of forest plantations. The Costa Rican Forest Council (CCF) represents 120 companies and associated organizations. The Council created a Unit of Trade in Forest Products whose objective is to promote the vertical and horizontal integration of wood producers, product manufacturers and traders, and facilitate transactions between the same. To date, they have facilitated the participation in international workshops, the organization of national workshops, the development of pilot projects and training. The National Forest Union of Small Farmers (JUNAFORCA) consists of regional organizations that in turn represent 22,000 small and medium forest producers grouped in 56 local organizations throughout the country. The Union is developing a National Strategy for Trade in Forest Products for small and medium producers, striving to secure more benefit for the forest producer in the chain of value added.

The System of Voluntary Forest Certification in Costa Rica

The Forestry Law No. 7575 clearly establishes that no forest can be utilized until a Forest Management Plan that complies with certified sustainability criteria has been approved by the State. It further establishes that the Forest Administrator of the State (AFE) will grant licenses to "Forest Certifiers," subject to the recommendation of a commission composed of representatives of well-known national and international academic and scientific organizations, with bases in Costa Rica and with prestige in the field of environment and forest resources.

A Rule of Forestry Law No. 7575 (Jan. 1997) created such—the National Certification Commission to give transparency and credibility to the certification process. The functions of the commission are to (i) define mechanisms of regulation and control for the System of Certification and submit these for approval to AFE, (ii) recommend to AFE the principals, criteria, and indicators of sustainability in natural forest management plans, (iii) recommend to AFE candidates to become certifiers, (iv) establish the internal regulation of the commission, (v) solicit AFE for the suspension of certifiers, (vi) supervise and watch over the work of authorized supervisors. During 1998, the National Commission revised and approved a document of the Principals, Criteria and Indicators of Sustainable Management of Forest and Forest Plantations in Costa Rica, which included 11 principals, 36 criteria and 88 indicators.

Forest owners can either present their Forest Management Plan directly to AFE for approval, or they can contract an Authorized Certifier to evaluate their Management Plan. If the plan complies with all the technical requirements, the Certifier presents the plan to AFE for approval. Authorized Certifiers are more able to field test the veracity of information contained in the Plan and frees State (AFE) resources. AFE is trying to implement a requirement that all State institutions, principally those responsible for the construction of housing, be required to use wood from certified forests. Costa Rica is one of 20 countries working on a national system of certification in order to receive the approval of the FSC.

Actual Situation

In Costa Rica, six Forest Management Units have international certification as reported by FSC.

Description of Certified Forest Management Units in C.R.

PORTICO: A company established in 1982 and dedicated to the production of wooden doors of high quality for export. The company is composed of an ensemble of four companies: one to own and manage the forest, a second to cut, extract and transport logs, one to protect the resource, and a sawmill. PORTICO now manages about 6,179 hectares of natural forest in the Atlantic zone of Costa Rica. The company requires about 10,000 hectares of forests to fully supply their demands, and so buys between 10% and 40% of their annual needs from neighboring forest owners. They plan to purchase an additional 2,500 hectares of forests to minimize economic risks from competition for wood. PORTICO received in 1993 the certification of “Good Forest Management” from FSC for their low impact management and extraction systems. The evaluation was conducted by the Green Cross Program of the company, Scientific Certification Systems. PORTICO was the first to receive certification of tropical forests at an international level. In 1997, the company also received the Tropical Forest Foundation Award for their contribution to the practical application of experimental silvicultural systems.

FUNDECOR: An NGO (the Foundation for the Development of the Central Volcanic Chain) that initiated operations in 1991 to conserve the natural and cultural resources of the Cordillera Volcanica Central, part of the National System of Conservation Areas. From 1991-1996, the Foundation was financed by funds from USAID, but by 1996 began to operate a Trust Fund to secure its operation in the long term. The Foundation does not actually own forest land, but promotes sustainable forest management and provides technical assistance to the owners of forests and forest plantations. As of January 1998, approximately 400 farms were associated with FUNDECOR representing a total of 32,000 hectares, of which 12,000 ha. were to be subject to natural forest management, 4,000 ha. for reforestation, and the remaining 16,000 ha. for the protection of primary and secondary forest. In February of 1997, the organization received the certification of “Good Forest Management” by FSC for 14,929 ha. This evaluation was realized by SCS under the modality of the “Green Umbrella.” This mechanism was designed for small and mediums sized farms that cannot cover the costs of the process, but who can receive certification as a group under group organization. FUNDECOR is certified, and they in turn evaluate each of their projects and decide whether they merit inclusion or exclusion from the list of forests and plantations certified.

Ston Forestal: A Costa Rican company which initiated activities in 1989 in the south of the country. Their goal is the establishment of 24,000 ha. of plantations of Gemlina arborea, and as of January 1999 had established 14,326 ha. at a cost of US$37 million. The established plantations are on lands held by the company, but they are developing a model of renting the farms of local land owners, providing financing and sustainable production systems in the economically depressed area. The company began with the idea of producing wood chips for paper and pulp, but with the drop in prices, now produces 50% chips (100% for export to the US and the far east), and 50% logs for the national market. The company has just signed two long-term contracts to provide logs to a pencil and a bench factory, neither of which utilize the fact that the wood is produced by certified forests. They are also developing a Program of Genetic Improvement for certified “melilna” seeds for export and national sale. This seed showed the highest growth rates in trials both inside and outside the country. Ston Forestal was certified in 1995 by the company, Scientific Certification System.

Flor y Fauna: A company established in 1989 and administered by a family from Holland. The company is dedicated to the production of teak from plantations in the north of the country, and also holds both sawmill and secondary transformation industries. The company stands out in the export of high value-added wood products and the excellent management of the plantations that provides their feedstock. The company enjoys both location in a trade free zone and special export contracts with the Costa Rican government. The total area of the project is 3,272 ha, of which 2,717 ha. are planted with teak, 85 ha. with native species, and 470 ha. are natural forests dedicated to the protection of biodiversity. The company maintains research plots to refine their 20-year cycle intensive management schemes. In 1996, Flor y Fauna received the “Good Forest Management” certificate given by the FSC, for the 2, 717 ha. of teak plantations. The evaluation was conducted by the Smartwood Program of the Rainforest Alliance. In September of 1997, they also received the “chain of custody” certificate.

Fundacion TUVA: A project to conserve 750 ha. of natural forest located in the Peninsula de Osa in the south of Costa Rica. The Foundation also promotes projects in sustainable agriculture, vanilla production, the utilization of wood that has fallen naturally in the forest, and the monitoring of marine turtles. The project concerns itself with 30 families, of which 18 are forest owners. The project divides the natural forest into three equal units of 250 ha. each to organize the utilization of fallen wood. Assuming two trees fall naturally in the forest annually per hectare, one of which is commercial, it is estimated that the area produces about 2,000 cubic meters of wood per year. The farmers extract the wood with steer or water buffalo and cut it into blocks on site. The wood is cut into boards sold at the local market. The certification of “Good Management” and of the “Chain of Custodianship” was received from the Program Smartwood of the Rainforest Alliance in 1996. Nevertheless, TUVA doesn’t negate the possibility of trying to utilize standing timber in a sustainable manner in the future.

Tropical American Tree Farm: This company dedicates itself to reforestation with 14 species of high-value trees such as teak, Nazarene, and mahogany, among others. The project was initiated in 1992 and embraces a total of 1,380 hectares. It was certified by the Rainforest Alliance in 1995.

Production Estimates of certified Forest Management Units

In total, the six units produce around 888,000 cubic meters of logs, about 37,000 cubic meters of sawn timber, and about 29,000 cubic meters of finished product annually. The breakdowns per company, and the assumptions used can be found in the main text.

The Potential Area that could be Certified by FSC

Projects that are potentially certified belong to two groups:

- Organizations that encompass smaller farms and forest workers that can attain Forest Certification using the Green Umbrella model used by FUNDECOR. These organizations manage about 20,000 ha. of natural forest and about 20-25,000 ha. of forest plantations.
- Medium and large companies dedicated to reforestation that can incorporate FC within their operations. In this category, there is approximately 30-35,000 ha. of plantations. There are nearly 43,000 ha. of projects with a size of 1,000 ha. or more, 18,585 ha. of projects with a size of 500-1000 ha., and about 60,000 ha. of projects 500 ha. or smaller.

Problems of the Forestry Sector in Relation to Certification

Technical Problems: (i) Lack of knowledge of the physical-mechanical characteristics of wood produced in plantations and of lesser known species in natural forests. (ii) Obsolete wood-working equipment not adequate for international markets. (iii) Scarcity of drying equipment for high quality products, and lack of drying programs for lesser known wood.

Management Problems: (i) Lack of capacity and management expertise in (a) market information, (b) export requirements (packing, transportation, customs, technical norms, etc.), (c) long term supply of primary material, (d) installed industrial capacity by type of resource (plantation, primary forest), (e) product supply capacity, (f) international wood prices. (ii) Overall in the sector, lack of training in management, technical issues, and operations.

Market Problems: (i) Apparently, there is insufficient environmental conscience to generate a large demand for certified products; rather, the market demand is for better pricing. (ii) Only three Costa Rican companies have experience in export; it is not certification that makes a product competitive in the international market, but quality, price, delivery time, and service. (iii) Lack of a strategy for trade in wood products at a national level. (iv) Companies with an interest in export need training in how to conduct packing for damage control.

Economic Problems: (i) Companies lack the liquidity to make the necessary changes to be competitive. (ii) Lack of credit with favorable enough terms to be economic.

Political Problems: Politicians don't consider the forestry sector strategic enough to invest heavily in the sector.

Conclusions/Solutions

Conclusions

The principal conclusion is that the problem of poor sales of certified products has its roots in the same structural problems as confront the sector as a whole. It is necessary to find integrated solutions that would raise the rents from wood producing industries and activities. The strategy for the sale of certified products should focus first on high value-added products for the international market. Since it is difficult for one company to possess the forest or plantation, the sawmill and the secondary transformations industries, it is necessary to promote close strategic alliances between the different actors. Also, since most forest parcels are small, it is also good to follow the model of forest certification in groups.

As regards certification, it was found that no economic premium exists to have one's products certified. Although with proper promotion an incipient market exists, the great problem is that most consumers don't know if their product is certified and don't demand certified products. It is more important to resolve the problems of product quality, delivery time, service quality and other technical and managerial elements in order to gain success in international trade, and to strengthen organizations that promote communication and alliances between businesses in the region. The Costa Rican Forest Council is an appropriate place to focus promotion of international and national trade in certified forest products. This group should search for financing for those qualifying associates to become certified and help promote the sale of their products at national and international levels.

Solutions

Technical: (i) Elaborate a strategic investment plan for the rehabilitation of the wood product industry. (ii) Develop technical assistance programs for those companies and organizations that might be able to assemble the conditions necessary to attain international quality standards, and who process exclusively certified products. (iii) Develop training in the technical management of forests and plantations for optimization of (sustainable?) production.

Organizational: (i) Develop managerial and administrative training for companies and organizations involved in the sector.

Market: (i) Promote Costa Rica as a producer of high quality products internationally certified, (ii) Promote close strategic alliances between the different producers and industries. (iii) Assess and train companies and organizations how to access US, European and Japanese markets. (iv) Participate in regional and world fairs for certified companies and organizations.

Economic: (i) Create credit with favorable terms for forest production and wood transformation activities. (ii) Promote joint-ventures.