PRIVATE SECTOR FORESTRY:
A REVIEW OF INSTRUMENTS FOR ENSURING SUSTAINABILITY

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CONTENTS

Executive Summary
Acknowledgements
1 Introduction
1.1 Scarcities of forest goods and services
   Table 1: Current beneficiaries of goods and services from the forests
1.2 Sustainable Forest Management (SFM)
1.3 The aim of this paper - scoping private sector roles in SFM
2 Private sector involvement in forestry
   2.1 Characterising the private sector
   2.2 The extent of private sector involvement in forestry: why large corporations are significant
      Table 2: Reasons for globalisation amongst SE Asian forestry companies
3 Private sector roles in the context of market and government failure
   3.1 Potential benefits and problems of private sector involvement in forestry
      Box 1: Potential benefits and problems of involvement of large companies in forestry
   3.2 Market failure, government failure, and privatisation
   3.2.1 Stakeholder roles
3.2.2 Public and private goods - excludability and subtractibility

Table 3: Public good characteristics of forest goods, services, and activities

3.2.3 Towards decentralisation and market incentives

4 How the private sector is performing in the forest

4.1 Is the private sector undertaking SFM spontaneously and on its own?

4.1.1 Social performance

4.1.2 Environmental performance

Box 2: Improved corporate practice in plantations and intensively-managed forests

4.1.3 Stakeholder pressures are important for improving private sector practice

4.2 The policy, market and institutional environments: their interaction with the private sector

4.2.1 Corrupt practices in the forestry sector

4.2.2 The climate of subsidy for commercial forestry

4.3 Tactics used by corporations in responding to stakeholder pressures

4.4 Tactics used by NGOs and grassroots organisations in dealing with corporations

4.5 The case for multistakeholder processes to improve the environment for private sector SFM

5. Mechanisms and instruments for encouraging private sector SFM

5.1 Privatisation processes

Box 3: Activities potentially considered to be privatisation

Box 4: Preliminary definition of privatisation in the forest sector

Box 5: Forest privatisation in the UK

Box 6: Forest privatisation in New Zealand

5.2 Concession allocation, pricing and enforcement instruments

Box 7: Philippines Industrial Forest Management Agreement

5.3 Forest management regulations

Figure 1: Efficient levels of damage abatement

5.4 Finance and tax instruments

5.5 The stock market and investment instruments

5.6 Trade laws

5.7 Private sector self-regulation and accountability

5.8 Certification

5.9 Other market mechanisms: fair trade, buyers' groups and procurement policies

5.10 Partnerships between the private sector and local groups

5.11 International mechanisms: joint implementation
Executive Summary

Private Sector Forestry: a review of instruments for ensuring sustainability

Society requires a large number of goods and services from forests. The private sector is an increasingly dominant player in the production of wood; and the market is the main way in which wood products are distributed. Yet, for the other forest goods and services such as non-timber products, biodiversity, and carbon storage, markets are often not effective. Worse, government and policy failures mean that the private sector's wood production activities often degrade the production base for these non-wood benefits.

The private sector offers many potential advantages in wood production: production efficiency due to exposure to competition; technological development and transfer; and the ability to undertake long-term investments. What are the chances of these benefits being turned to the production of forest goods and services other than merely large quantities of fibre? What regulatory and market instruments would create the right climate for a wholesale move away from companies stripping away forests' assets, and towards a longer-term investment in sustainable forest management for multiple benefits?

At present, there are few routine systems for assessing forest companies and their use or abuse of forest assets. Whilst acknowledging this lack of information, this paper reviews the behaviour of large companies. Such companies are involved in both deforestation and afforestation. The paper suggests that governmental/policy failures lie behind much of the poor practice - stock market and product market failures merely reflect these.

There are many examples of companies improving their environmental practice. While this is largely due to companies achieving cost-savings in environmentally-sensitive practices, it is also partly due to stakeholder pressure and discriminating purchasing policies, where products from well-managed forests are sought by buyers. The recent swing in many countries towards market solutions, as opposed to regulation, may thus have had some environmental benefits. However, market failures and policy failures remain very pronounced with respect to social issues - local people's rights are insecure or ineffective, especially in relation to those claimed by large companies, and systems for participation are weak. Pressures to improve the private sector's social performance have not proven very effective.

In general, both market and policy failures are such that the private sector will infrequently improve its forest management spontaneously. A mix of regulations and incentives will be needed to ensure that the full range of social and environmental benefits is produced at the same time as fibre. Property rights for various forest goods and services need to be more secure, externalities need to be internalised in companies' decision-making on forests, competition increased, and uncertainties reduced.

How can this be done? This paper reviews varied experiences of privatisation processes and recent lessons of regulatory and market instruments that affect the private sector from both supply-side and demand-side angles. It is clear that a much more subtle palette of solutions is required - rarely are extremes of universal privatisation or nationalisation effective. Many new market instruments are particularly promising.

Five key issues are singled out as significant in defining instruments that result in sustainable private sector forestry:

1. The nature of the forest good or service in question - whether it is a public or private good (or something in between) can be assessed by its excludability (the ability of an individual to deny its use to another) and its subtractibility (the amount that its consumption subtracts from its repeated
consumption).

2. The **maturity of forestry institutions**, which entails the quality of information flows, communications between stakeholders, degree of decentralisation, and administrative capacity of state institutions. Some instruments just will not work without sophisticated institutional capabilities.

3. The level of **participation of other stakeholders** in the decisions on private sector roles and associated instruments. Greater participation appears to be justified. Putting companies together with the parties that will be affected by their operations can help to generate innovative solutions. These solutions include markets for non-wood benefits, markets for damage abatement/compensation, differentiated rights provisions, and partnership arrangements.

4. The **motivations, organisation and dynamics** of private sector enterprises. These will differ according to whether the enterprise is the owner of the forest resource, or the manager of forest operations. It is more effective to examine motivations and dynamics in terms of business responses to policies, forest endowments, and market situations, rather than to assume a "conspiracy theory". Industry associations will be increasingly significant in improving private sector performance especially if they adopt independent verification.

5. The **costs of any instrument** - which should not exceed the benefits obtained. This will always be a difficult calculation as the costs and benefits of non-wood benefits are not always well-enumerated or widely agreed.

The failure of otherwise promising instruments may be explained by the lack of one or more of the above. This paper provides a brief overview of the main issues in improving the sustainability of private sector forest management, and reflects a range of opinions on these issues. It finishes by summarising a three-year IIED programme, just started, which will explore and promote the most effective instruments for sustainable private sector forestry.

**Introduction**

**Scarcities of forest goods and services**

Society as a whole now seeks an enormous range of goods and services from forests (Table 1). This range is far greater than the market can currently deal with.

Greater or lesser value is placed on specific goods and services, by different actors, at different levels from the household to the international community. Some needs may be direct and urgent e.g. for rural people's livelihoods. Others may be more indirect e.g. ensured water supplies for agricultural development.

Stakeholders have different access to the means for expressing their specific needs. Many have access to the market, which can be a relatively efficient means of producing and distributing some goods and services e.g. timber and recreation. For other goods and services, such as biodiversity, there are often neither efficient markets nor other effective mechanisms for ensuring their needs are fully met.

In recent years, various forest goods and services have become increasingly scarce in many regions. A number of supply-side strategies have evolved for dealing with these scarcities:

- developing a permanent forest estate (through protection and afforestation);
- obtaining forest goods and services from non-forest land (such as farm trees);
- regulation of forestry management practices to increase/improve non wood outputs and protect the residual stand;
- technological innovation to increase the efficiency of fibre use, e.g. "engineered" wood panels such as OSB and MDF;
- importing forest goods and services; and
- producing substitutes for forest goods and services (such as non-wood fibres, concrete, metal and plastics).

Such strategies have evolved in part through government planning, but also largely through the spontaneous action of stakeholders - often spurred on by market pressures.

The private sector has become an increasingly dominant actor in all of these strategies, notably for producing
wood fibre. It is driving the expansion of the forest products industry into new regions, aided by technological developments which allow the use of a greater range of species and sizes in wood products. Policies have come to reflect both the importance of fibre and the perceived significance of the private sector in producing it.

In contrast, policy and civil society movements are now also making non-timber forest products, biodiversity conservation and cultural benefits a priority. This is clear from (inter) governmental policy initiatives and from civil society campaigns. The private sector is less routinely involved in producing these goods and services to the contrary, its production of wood has often reduced other stakeholder's abilities to produce and/or consume these non-fibre benefits. Policy processes have begun to recognize the private sector as a key stakeholder, but have yet to create the right signals to encourage the private sector to provide a broader range of goods and services.

Table 1: Current beneficiaries of goods and services from the forests

<table>
<thead>
<tr>
<th>Goods and services from forest</th>
<th>Local benefit</th>
<th>National benefits</th>
<th>Global benefits</th>
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</thead>
<tbody>
<tr>
<td>1. Wood products</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Non-wood products</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Maintenance of hydrological cycle</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>4. Soil and water quality conservation</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>5. Wind and noise control</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>6. Landscape amenity</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>7. Recreation and tourism</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>8. Cultural and religious services</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>9. Microclimate regulation</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Climate moderation</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>11. Maintenance of biological diversity</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>12. Scientific research and education</td>
<td>X</td>
<td>X</td>
<td>X</td>
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</tbody>
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Based on: Segura, O. et al. 1996

Sustainable forest management (SFM)

At the forest level, the ways in which supplies of the various forest goods and services can be integrated, and the security of such supplies maintainer over time, has come to be called "sustainable forest management (SFM). In recent years, there has been a spate of initiatives to define, or to prescribe, SFM/

The earliest, unilateral initiatives to define SFM e.g. by industry associations, or by environmental NGOs alone, became mistrusted by other stakeholders. Hence the current interest in defining SFM through multistakeholder processes. These processes attempt to forge patterns of forest management to meet the multiple needs of different actors (not only those which can be expressed in the market place), and to redress the inequalities between those who bear the costs of forest exploitation, and those who reap the benefits. These range from the global/intergovernmental (notably the UN Forest Principles and ITTP Criteria), to the regional (e.g. the Helsinki Criteria for Europe and the Tarapoto Agreement for the Amazon) and national (e.g. the UK's Sustainable Forestry initiative and national standards), to those defined by civil society groups (e.g. the Forest Stewardship Council's Principles and Criteria of forest stewardship).
Such initiatives have come about in response to escalating clashes of interest and opinion about how best to overcome the increasing scarcities of particular forest benefits. The various stakeholders involved have, of course, had their own agendas, over or otherwise. For example, governments have wished to protect their sovereignty over forests from possible supranational control. Public interest groups have tried to elevate concerns for biodiversity. And many corporations have tried to protect their markets and their access to land and raw materials, and to avoid increased costs.

IIED (1996) analysed 17 initiatives to define SFM and found they all had the following in common:

- sustaining yields of all forest goods and services;
- conserving biodiversity; and
- ensuring positive social and economic impacts on different groups.

All these initiatives acknowledge that the basic principles of SFM need to be interpreted locally. Forest ecosystems, and the human systems with which they interact, are neither identical nor predictable in their responses to different uses or management interventions. Hence most initiatives stress the need for local interpretation (by more than one stakeholder), and for careful experimentation, monitoring and adaptation dependent upon the impacts achieved, whilst employing precautionary principles that acknowledge that management of the forest for specific goods and service; but not always a recognition that in many cases we do not know the optimum production mix. This will be a moving target, defined not only by changing preferences of the various groups, but also by new technology.

The practical application of SFM will, therefore require openness to non-market demands, and mechanisms to integrate them with commercial forest uses. It will demand improved knowledge of local ecosystem responses. It will also entail greater attention to the traditional knowledge that has evolved through observation of forest ecosystems over many years. It will certainly not be about universal solutions on clear-cut size, chemical applications, etc.

**The aim of this paper - scoping private sector roles in SFM**

This paper aims to begin to address the questions:

- How can the private sector continue to manage forests to produce wood and other market good, whilst improving its delivery of non-market goods and services?
- And in what ways can the private sector be encouraged to do above-through the market, or through other mechanisms and instruments put in place by government and civil society?

The paper reviews these questions, offering a preliminary overview of private sector performance and tactics, a review of the various mechanisms and instruments, and suggesting promising avenues for research and action that will, in future, ensure that the private sector continues to deliver more than mere fibre, and does so on the basis of greater sensitivity to other stakeholders, and a broader knowledge base, as well as commercial interests.

IIED’s approach in this paper builds on its observations, made over 25 years, that progress in the private sector is achieved by leaders either becoming aware of some of the business/environment win-win possibilities that lead to spontaneous improvements, or being pushed by other actors - as long as the other actors can fashion the right carrots and sticks to cajole the mainstream private sector towards best practice. Research should therefore focus on the root causes which constrain more widespread adoption of best practice. This paper is just a beginning in this respect.

The paper is the first product of a three-year IIED research programme, Instruments for Sustainable Private Sector Forestry. This will involve collaborative research with six developing countries, with other research bodies, and with selected companies. The Programme is introduced at the end of this paper (Box 8).

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**What the IPF, WCFSD, and EC say about private sector forestry**

The Intergovernment Panel on Forests (IPF) calls for action to enhance private sector investment including: voluntary codes of conduct especially on management practices, technology transfer, education and investment; reinvestment of private sector revenue back into SFM; improving the policy/regulatory climate in developing countries to attract private sector investment and community enterprises in SFM and forest protection; and loan and investment guarantees from developed countries.
for the activities of their national private companies in developing countries.

The World Commission on Forests and Sustainable Development (WCFSD) emphasises a two-pronged approach - both working with the leaders of the private sector to examine constraints to best practice; and working with governmental and civil society actors to improve the incentives and controls they can use for controlling the private sector. WCFSD calls for a special focus on timber pricing, concession allocation, finding the right role for certification, and penalizing "cut-and-get-out" companies operating in such countries as Papua New Guinea (PNG), Siberia and the Guyanas (its global Forest Watch proposal is the first step here). It is also calling for policy research from IIED and others.

Article 4 of the European Commission's (EC) Protocol 10 on "Sustainable management of forest resources" of the Fourth Lome Convention highlights the need to ensure that trade and revenue generation from tropical forests is achieved through sustainable forest management, rather than by forest asset-stripping. It focuses attention on the need to define and develop certification as a particular instrument for achieving this. Article 3 calls for improved research and capacity building in support of this.