



## Principles and Criteria Review

### Briefing Paper on Economic Viability

**Bonn, 10<sup>th</sup> November 2010**

This paper was produced by the P&C Review Working Group to address stakeholder concerns raised in relation to economic viability as an objective of responsible forest management. The paper will also serve as a basis for further discussions at the P&C Review Workshop on the 15th and 16th of November 2010. The P&C Review Working Group does not pretend that this could be The Last Word on the issue.

Should you have any further questions regarding this issue, please contact Matthias Fecht at [m.fecht@fsc.org](mailto:m.fecht@fsc.org)

In accordance with its terms of reference the tasks of the FSC Working Group for the revision of the global Principles and Criteria for Forest Stewardship are mainly:

- a. to clarify the FSC requirements, so as to reduce disparities in evaluations by ASI-accredited conformity assessment bodies;
- b. to shift the wording of Criteria towards outcomes where practicable; and
- c. to minimize the variety of interpretations found in national forest stewardship standards and national adaptations of the generic standards developed by the conformity assessment bodies.

#### **What is the issue as perceived by some FSC stakeholders?**

There were many concerns raised by members of the economic chamber that the proposed revisions to the P&C would be at the disadvantage of the economic viability of The Organization by (a) increasing, upgrading and tightening the social and environmental requirements in the revised P&C, (b) increasing bureaucracy as a result of focusing on processes, procedures and documentation, especially where requirements seem to duplicate existing legislation, an increased number of criteria and requiring compliance of contractors, (c) and not recognizing the importance of economic viability (in the sense of financial viability or profitability) as one of the objectives of responsible forest management.

While these concerns generally apply to all kinds and sizes of Organizations, many comments expressed that they apply, on an exacerbated level, for small holders, especially those located in developing countries, making certification of small management units very difficult if not impossible.

The environmental chamber on the other hand felt that use of the term economic viability as defined by the P&C Review WG would limit the goals of forest management to economic outputs.

#### **What is the response of the P&C Review WG?**

The WG has no mandate to increase or tighten the social and environmental requirements, except as such increase or tightening results from clarifying the original wording for example



as a result of incorporating existing FSC rules (policies, advice notes etc.) and previous processes (e.g. plantations review).

#### Environmental Requirements

The WG has been careful not to increase environmental responsibilities and has focused on clarifying and coherence. As shown in the comparison table 1 below, with the exception of restoration of natural water bodies the P&C Review WG has not added any new requirements compared to the current Principles and Criteria (Version 4-0). The requirement to restore water bodies is related to the general requirement for The Organization to repair environmental damage which has been caused by its own management activities. Some of the requirements of revised Principle 6 are 'new' only in that they were moved here from P10 on plantations. These include requirements relating to mosaics of stands, riparian zones (streamside zones) and wildlife corridors.

It should be noted that all current Principles and Criteria (Principle 1 to 9 and Principle 10) apply to plantations. So the working group has practically not added any new requirements for plantations.

Where needed requirements were revised to better reflect the situation that the P&C apply to all vegetation types, for example in relation to mosaics of stands and biodiversity conservation. Separate briefing papers have been produced for these issues.

#### Social Requirements

The main concerns here were raised concerning the requirements with a relation to local development under Principle 4 and Principle 5. Comparison table 2 below shows that none of these requirements is entirely new compared to the current Principles and Criteria. Another concern was raised in relation to the recognition of customary rights of indigenous peoples, and is addressed in a separate briefing paper.

The revised P&C clarify that local providers should be used by The Organization when that individual or company can show a reasonable price and a reliable service that meets time and quality commitments. This does not mean that the Organization needs to only purchase local service and products regardless of cost or quality nor does it mean that the Organization should always select the lowest cost provider. With all things relatively close to equal, the local provider should be employed. However, The Organization is also required to provide opportunities for training, including among others, to potential contractors. This kind of training should focus on helping local providers to meet the expectations of The Organization. The intent is a level of reasonableness for The Organization to follow. Neither The Organization nor a potential service provider should attempt to benefit unfairly from the requirements of the Principles and Criteria.

The Organization is also required to demonstrate a level of diversification of services and products from the Management Units. The reason is two-fold. At first it could be beneficial for the economic viability of The Organization by reducing dependence on a single product. Secondly, however, The Organization does not necessarily have to do all of this diversification itself but can also encourage other businesses to benefit as well or at least not impair other positive business or service ventures. The P&C also recognize that the potential for diversification depends on the specific situation for example management system and vegetation



types, e.g. there is less opportunity for diversification in plantations, and that such diversification must not be contradictory to the management objectives or the Principles and Criteria.

This aims at helping to build community stability and also should prove beneficial to The Organization as well to help meet its needs. The intent is to help build local community diversification, stability, and prosperity. While this is occurring, the economic prospects of The Organization will not be unreasonably hampered so that there is a truly mutual beneficial relationship between The Organization, and ultimately the local communities. However, unlike the current principles and criteria the revised P&C recognize clearly that the efforts required from The Organization depend on scale, intensity and risk and where applicable also the prevailing socio economic conditions and therefore differ between countries, regions, management units and Organizations.

#### Economic Viability

While FSC sets a high expectation level for social and environmental performance, this cannot be done in a vacuum without proper consideration of economic viability. Recognizing this, the P&C Review WG agreed that Criterion 5.1 solely focuses on economic viability.

Economic viability for The Organization can be described in two primary ways: short term as well as long term. Both components are essential for The Organization's survival.

Many FSC certificate holders need to be able to compete in world markets so the fine line between the high expectation for social and environmental performance and the ability to successfully compete needs to be found. For short term viability, the Organization needs to demonstrate that it has a reasonable cost structure that does not compromise its ability to compete and survive in the longer time frame.

The P&C recognize that markets fluctuate from time to time and for relatively brief time periods, The Organization's cost structure may exceed its revenues resulting in temporary losses. However, this cannot continue too long or else its ability to survive may be doubtful.

For the long term, the P&C require that The Organization needs to demonstrate it is making proper long term investments to help position itself for a reasonable chance at long term survival. A business that has a reasonable long term chance of prosperity also has the added benefit of social stability for local communities and its workers as well as long term environmental health. Long term businesses tend to demonstrate commitment to environmental health as they also have to live with the consequences of poor performance.

The P&C also recognize that economic viability does not mean that all management units must be operated for commercial purposes, that is to generate profits. Economic viability means a long term balance between costs and revenues. Management units may be run simply for non-profit purposes.

#### Bureaucracy

A limited number of requirements were included in the revised P&C (see comparison table 3 below) in relation to planning and procedures and thus considered by some stakeholders as resulting in increased bureaucracy. The requirements were incorporated by the P&C Review WG to close a gap between the current P&C and the nowadays commonly practiced quality



management cycle. However, the P&C clearly recognize that the efforts required in relation to the establishment of management objectives, planning and monitoring and documentation depend on the scale, intensity and risk of management activities and the socio economic conditions in relation to the attributes addressed in specific criteria. A few examples:

- In countries where The Organization is required to carry out environmental impact assessments by law, which address impacts on environmental values as defined in the P&C, The Organization is not required to carry out an additional impact assessment, according to criterion 6.2, or to produce additional documentation. Where the impact assessment as required by law only addresses a limited number of the environmental values as defined by the P&C, additional assessments are required to close the gap between the legislative provisions and the requirements of the P&C.
- For small-holders with few or minor negative social impacts the activities in relation to Social Management Planning will differ (e.g. be less formal and elaborate) from those required from larger entities with the potential of higher impacts.
- Social management planning for a large scale government-run management unit, tightly regulated by social legislation that meets the requirements of the P&C, will differ from that required from a private large scale management unit in a country with no such legislation.

In line with this approach, the P&C Review WG also removed the list of mandatory items to be included in the management plan. This provides more flexibility to adjust the management planning and documentation to the management objectives. For example the management objectives and related planning and monitoring for a unit managed for timber production will be very different from those of a unit managed for conservation purposes only. For the latter there may be no need to address in the management plan annual harvesting rates and species selection.

The number of criteria will go down significantly in the next draft, as the working group agreed to reduce the number of requirements under Principle 1. Also, the Working Group is of the opinion that the remaining increase in number of criteria will not increase bureaucracy but reduce differences in interpretation and thereby reduce efforts, time and costs related to assessment of compliance with the P&C. It is also anticipated that the additional clarity provided in these new P&C will not result in an overall increase in generic indicators yet to be developed. For concerns in relation to 'engagement', please refer to the applicable briefing paper.

**1. Comparison of environmental requirements in the revised and the current P&C**

<b>FSC-STD-01-001 V5-0 (revised P&amp;C)</b>	<b>FSC-STD-01-001 V 4-0 (current P&amp;C)</b>
<b>Criterion 6.3:</b> Impact prevention, mitigation and remediation	<b>Criterion 6.1:</b> Integrate results of impact assessment in management systems
<b>Criterion 6.4:</b> Protection of RTE through habitats	<b>Criterion 6.2:</b> Safeguards for RTEs and habitats
<b>Criterion 6.4:</b> Conservation areas for RTE protection	<b>Criterion 6.2:</b> Conservation zones and protected areas.
<b>Criterion 6.5:</b> Conservation and/or restoration of representative ecosystem samples	<b>Criterion 6.4:</b> Protection of representative samples of existing ecosystems



<b>Criterion 6.6:</b> Avoidance of losses of genetic and species diversity	<b>Criterion 6.3:</b> Maintenance, enhancement, restoration of genetic and species diversity
<b>Criterion 6.7:</b> Conservation or restoration of natural water bodies and riparian zones	<b>Criterion 6.5:</b> Protection of water resources. <b>Criterion 10.2:</b> Streamside zones. <b>Criterion 10.6:</b> No adverse impacts of management activities on water quality, quantity and no substantial deviation from stream course drainage patterns. <b>Gap:</b> Restoration of water bodies and riparian zones to repair damage caused by The Organization.
<b>Criterion 6.7:</b> Conservation or restoration of wildlife corridors.	<b>Criterion 10.2:</b> Wildlife corridors required
<b>Criterion 6.8:</b> Maintenance of mosaic of stands.	<b>Criterion 10.2:</b> Mosaic of stands required.

## 2. Comparison social requirements in the revised and the current P&C

FSC-STD-01-001 V5-0 (revised P&C)	FSC-STD-01-001 V 4-0 (current P&C)
<b>Criterion 4.2:</b> Local communities control management activities to protect rights, resources, lands and territories.	<b>Criterion 2.2:</b> Local communities maintain control to protect rights or resources
<b>Criterion 4.2:</b> Delegation of control with free prior and informed consent	<b>Criterion 2.2:</b> Delegation of control with free and informed consent
<b>Criterion 4.3:</b> Provide opportunities for employment training and other services	<b>Criterion 4.1:</b> Provide opportunities for employment training and other services
<b>Criterion 4.4:</b> Identification, avoidance and mitigation of negative social and economic impacts	<b>Criterion 4.4:</b> Incorporate results of social impact evaluations in planning and operations.
<b>Criterion 4.5:</b> Contribute to social and economic development.	<b>Criterion 4.4:</b> Incorporate results of social impact evaluations in planning and operations. <b>Criterion 5.4:</b> Strengthen and diversify local economy.
<b>Criterion 4.6:</b> Compensation for intellectual property	<b>Gap:</b> This is already required for Indigenous Peoples. There is no reason to exclude other local communities, e.g. traditional peoples.
<b>Criterion 4.7:</b> Grievance resolution and fair compensation	<b>Criterion 4.5:</b> Grievance resolution and fair compensation
<b>Criterion 4.8:</b> Protection of significant sites	<b>Gap:</b> This is already required for Indigenous Peoples. There is no reason to exclude other local communities, e.g. traditional peoples.
<b>Criterion 5.3:</b> Diversified benefits and products to strengthen and diversify local	<b>Criterion 5.2:</b> Optimal use of forest's diversity of products.



economy	<b>Criterion 5.4:</b> Strengthen and diversify local economy <b>Criterion 5.4:</b> Avoid dependence on single product
<b>Criterion 5.4:</b> Use of local processing, services and value adding	<b>Criterion 5.2:</b> Use of local processing

### 3. Comparing of planning and procedural requirements in the revised and current P&C

FSC-STD-01-001 V5-0 Draft 3-0	FSC-STD-01-001 V 4-0 (current P&C)
<b>Criterion 3.1 and 4.1:</b> Identification of indigenous peoples and local communities	<b>Gap:</b> Without knowing possibly affected indigenous peoples and local communities it will be impossible to uphold their rights.
<b>Criterion 3.3:</b> Binding agreement with Indigenous Peoples in case of delegation of control	<b>Gap:</b> Needed to determine and ensure compliance with conditions under which control is delegated.
<b>Criterion 5.1:</b> Commitment to long term economic viability.	<b>Criterion 5.1:</b> Strive toward economic viability and ensure investments to maintain ecological productivity
<b>Criterion 5.2:</b> Include estimates of environmental and social costs in management planning	<b>Criterion 5.1:</b> Take into account full environmental, social and operational costs
<b>Criterion 6.1:</b> Assessment of environmental values	<b>Gap:</b> Needed as a basis for deciding on possible impacts and appropriate conservation measures
<b>Criterion 6.2:</b> Impact assessment prior to site disturbing activities	<b>Criterion 6.1:</b> Assessment of environmental impacts
<b>Criterion 7.1:</b> Establishment of policies and objectives of management	<b>Principle 7/Criterion 7.1a:</b> Management objectives to be provided
<b>Criterion 7.2:</b> Forest management planning	<b>Criterion 7.1:</b> Forest management plan
<b>Criterion 7.2:</b> Social management planning	<b>Gap:</b> Needed to improve management of social issues related to the management unit.
<b>Criterion 7.3:</b> Establishment of measures/indicators of success	<b>Gap:</b> Needed for assessing achievements of management objectives
<b>Criterion 7.4:</b> Updating of management plan	<b>Criterion 7.2 and 8.4:</b> Updating of management plan
<b>Criterion 7.5:</b> Publication of management plan summary	<b>Criterion 7.4:</b> Publication of management plan summary
<b>Criterion 7.5:</b> Providing entire management plan	<b>Gap:</b> Transparency requires that affected stakeholders can see how management plan addresses their concerns
<b>Criterion 7.6:</b> Engage stakeholders in planning and monitoring	<b>Criterion 4.4:</b> Consultation with directly affected people and groups.



	See briefing paper on engagement
<b>Criterion 8.1:</b> Monitoring achievement of management objectives	<b>Criterion 8.1:</b> Monitor achievement of management objectives
<b>Criterion 8.2:</b> Monitoring impacts	<b>Criterion 8.2 d:</b> Monitor environmental and social impacts
<b>Criterion 8.3:</b> Monitoring to be appropriate to detect, prevent or correct negative deviations from management objectives.	<b>Criterion 8.1:</b> Monitoring to allow assessments of changes.
<b>Criterion 8.4:</b> Tracking and tracing system	<b>Criterion 8.3:</b> Chain of custody system
<b>Criterion 8.5:</b> Publicize summary of monitoring results	<b>Criterion 8.5:</b> Publicize summary of monitoring results