



Management
Analysis
& Development

School Trust Lands

The Impact of Forest Certification on Costs, Revenues, and Market Access for School Trust Lands

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Executive Summary

This Management Analysis & Development (MAD) study for School Trust Lands (STL) highlights the following important findings about forest certification's impacts on STL costs, revenues, and markets:

- Forest certification charges to STL in fiscal 2015 are estimated at about \$94,700 for direct costs and about \$174,300 if the costs are expanded to include certification-related expenditures for general operations and administration.
- Reasonable but initial estimates of annual foregone STL revenues from harvest restrictions and reserve requirements range from a low of \$25,000 for ones specifically related to forest certification to a high of \$421,900 for forest certification standards as well as all other restrictions and reserve requirements that DNR follows on school trust land, some of which may or may not be required for forest certification.
- The study finds that forest certification yields little or no price premium for STL or DNR timber, with other market factors undermining positive price pressure for certified timber.
- Representatives from Minnesota's paper and pulp industry, which accounts for about 70% of the timber STL sells, cite a clear need for certified timber, while representatives from lumber mills report no preference for certification. Industry experts and representatives said forest certification provides access to markets for paper and pulp producers.

STL contracted with MAD for this study to explore the costs of forest certification to the trust, the impacts of forest certification on prices paid for STL timber, and the need for certified timber from the trust to meet the demands from customers of Minnesota's primary forest products industry. STL generates revenue, including from timber sales, that builds up the state's permanent school fund (PSF) and allows for twice-yearly distributions of investment earnings to school districts throughout the state. The State of Minnesota holds the lands in trust, with statutory policy mandating the STL secure maximum long-term revenue by employing sound natural resource and conservation management principles. The Minnesota Department of Natural Resources (DNR) manages STL's forest land, charging STL for its services.

DNR has adopted forest certification under standards from the Forest Stewardship Council (FSC) and the Sustainable Forestry Initiative (SFI) for all the forests that DNR manages, including school trust land. FSC and SFI define standards for sustainable and responsible forestry management and then accredit independent, third-party auditors, who assess forest lands to ensure conformance with the standards. STL requested this study to identify specific costs and benefits from forest certification. MAD analysts interviewed officials at primary forest products operations in Minnesota, interviewed industry experts and forest certification officials, reviewed published research, and used data to compile and calculate relevant measures and estimates.

DNR's Forest Certification Charges to STL

Estimates show that STL paid about \$94,700 for its share of direct DNR charges for forest certification in fiscal 2015, with the total rising to about \$174,300 if the forest certification costs are expanded to include estimates for related expenditures on general operations and administration. The direct forest

certification charges (\$94,700) amounted to 1.2% of total forestry costs borne by STL in fiscal 2015. The estimated costs to STL for forest certification with indirect administration and general operations expenditures included (\$174,300) accounted for 2.1% of STL's fiscal 2015 forestry costs.

Estimated Foregone Timber Harvests and Revenue

Reasonable but initial estimates show that foregone revenues to STL from DNR harvest restrictions and reserve requirements range from a low of \$25,000 to a high of \$421,900 annually. The low \$25,000 estimate is for harvest restrictions and reserve requirements specifically related to FSC and SFI forest certification guidelines. The higher \$421,900 estimate factors in other restrictions and reserve requirements on school trust lands from DNR policies and a state law affecting harvest set-backs near water in several Minnesota counties. (The acres affected by the state law were included in the available DNR data.) It is uncertain how many of the restrictions and reserve requirements tied to DNR policies affect the forest certification status for school trust land.

More precise estimates are possible but not presented in this study. Next steps for better estimates require first that STL and DNR officials agree on which reserves and restrictions, beyond those tied directly to FSC and SFI standards, are relevant to forest certification and reasonable to include in a more detailed analysis. Second, DNR will then need to produce more detailed estimates of lost STL revenue, incorporating this information about relevant DNR policies.

No Price Premiums Likely for STL's Certified Timber

When DNR adopted certification for STL forests in 2005, many industry leaders and state officials expected certified wood would command a price premium. However, the consensus among industry representatives and experts interviewed for this study is that forest certification yields little or no price premium for STL or DNR timber. They said certification has not increased stumpage prices paid to DNR and STL or the prices paid to mills for pulp, paper, and lumber products, except in limited cases. Officials with the FSC and SFI forest certification organizations emphasize a range of positive outcomes from certification, but acknowledge that positive impacts from certification on timber prices are hard to track and not common.

MAD researchers identified the following possible reasons for why forest certification has had no identifiable positive impact on STL and DNR timber prices:

- *Supply:* There is ample supply of certified timber in Minnesota and the Great Lakes region.
- *More important pricing factors:* Certification is generally too minor a factor to swing the price paid for timber, and other factors have greater influence.
- *Paper and pulp declines:* The timber market has been adversely affected by declines in the paper and pulp industry, which constitutes an important segment of the market interested in certification.
- *Commodity status:* Primary wood product producers make little or no differentiation between timber sellers because timber from one source can be easily substituted for timber from another.
- *Quality:* Certification does not positively affect timber quality, so buyers are unwilling to pay a higher price for certified timber.

- *No premium from consumers:* In general, the end users of wood products are unwilling to pay notably higher prices for items made from certified timber, so manufacturers are reluctant to pay a premium.
- *Lumber:* In general, the lumber and board producers in Minnesota do not need certification for their products and so won't pay for it.
- *Price dynamics:* The market dynamics for timber on forest lands are such that buyers wield significant power over the sellers of timber, making it difficult for timber sellers to boost prices.

Industry's Need for STL's Certified Timber

Representatives from Minnesota's paper and pulp mills expressed a clear need for certified timber, but lumber mill officials said they don't need certified timber to meet customer demands. However, almost all of those interviewed advised that STL should keep forest certification in some form because certification offers a "social license" that allows industry to harvest trees and produce products without environmental backlash and lets STL operate without public pressure or lawsuits over logging operations.

The split that MAD researchers found between representatives in the paper and pulp industry, who expressed a need for certified timber, and representatives from lumber mills, who had no preference for certification, may be an important one for STL. An analysis of DNR sales records, by scaled value and volume, found that about 70% of STL timber was sold to paper and pulp mills from 2012 to 2015. Paper and pulp mills account for a very small number of the businesses buying STL timber but the majority of STL timber consumption.

Industry Attitudes toward Types of Certification

Interviews with industry representatives from four primary forest products companies in Minnesota indicate a preference among paper and pulp mills for timber with certification under both FSC and SFI standards, but no preference for certification at all among lumber mills. The paper and pulp representatives said they believe the market generally prefers FSC certification to SFI certification, but they noted, too, that SFI is becoming a more prominent and accepted certification.

Forest Certification for Market Access

The industry representatives and experts interviewed said forest certification provides access to markets for paper and pulp producers, and that this access to markets is what drives the demand for STL's certified timber from major mills in Minnesota.