The role of governments in forest certification—a normative analysis based on new institutional economics theories

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Received 27 February 2001; received in revised form 10 December 2001; accepted 27 December 2001

Abstract

Forest certification is an issue that changes the forestry sector more profoundly than many governmental initiatives. Governments have taken quite different approaches across the globe and over time in dealing with the phenomenon. In most regions, they have seemingly switched to a ‘wait and see’ mode when confronted with the complex and fast-developing issue of forest certification. This paper explores the usefulness of economic theories to come up with recommendations on the role of governments. The approach taken is mainly based on ‘new institutional economics’ theories, especially on economics of information and related agent issues. Data collected from policy makers are used to compare theoretical positions against empirical findings (Werle, 1997). The paper shows that the economic theories applied provide rather clear indications on the role of governments. There are essential roles, such as ensuring compatibility with laws and international obligations. These have largely been fulfilled. Ensuring legal compliance, however, might well not be the only guiding function that governments should exert for the sake of market transparency, and thus market efficiency. That concerns both setting standards for forest management and roles in setting up and running private certification systems. © 2002 Elsevier Science B.V. All rights reserved.

Keywords: Forest certification; Governance; New institutional economics; Forest policy; Economics of information; Adverse selection

1. Introduction

The idea to establish schemes to certify sustainably or well-managed forests was born approximately a decade ago by private interest groups that wanted to create instruments to alleviate the global downward trend in the quantity and quality of forests. Over the years, a considerable amount of resources was invested by different interest groups, as well as governments, to define good or sustainable forest management (SFM) and to establish institutions that allowed certification of good management in a certain management unit or region. Companies have become increasingly interested in the potential market advantage that such schemes can bring. Forest certification has quickly become a global performance-based eco-certification programme. Nevertheless, the global deterioration of forests remains largely unchanged.

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As a whole, forest certification seems to be an issue that is surprisingly persistent, and it is likely to remain on the economic and political agenda. Governments have taken quite different approaches across the globe and over time on forest certification and towards the activities of private interest groups to establish such certification systems. The positions taken by governments range from legislation to the setting up of governmental certification systems, to financing or co-financing activities, to not taking note of the issue at all. They have also given different considerations to its potential major implications for product markets and its effects on forest policy.

Although, over the years, many aspects of forest certification have been studied in detail, the role of governments has not been adequately covered. The objective of this paper was to explore the applicability and fit of some theories of new institutional economics, especially information economics, to defining the role of governments in forest certification.

2. Methodology and theoretical approach

There are two approaches to studying the role of governments in a given situation. The first observes what the government actually does. The second analyses what the government should do. This paper is based on the second approach. Normative grounds for political–economic interventions of the state are usually either justified on historical–political ground, or on reasoning related to welfare enhancement. The latter builds the background used here.

The ‘government’, as used here, denotes the bodies that are authorised to exercise authority in the administration of laws or regulations of a state. It is assumed that the primary role of government is to service the whole of society, as opposed to servicing its specific clientele. This might be a phenomenon that is rather difficult to find in ‘the real world’, not least because ‘the government’ is not a single body, but comprises many bodies.

It is unanimously acknowledged today that purely market- or state-dependent organisation of human economic behaviour leads to economically and socially sub-optimal results in resource allocation. The three classic governmental functions, according to Musgrave (1959), are related to allocation, distribution and stabilisation. A governmental intervention is then justifiable if market failures occur in one of the three areas. Widely acknowledged allocative market failures comprise public goods, external effects, imperfect information and incomplete markets (Stiglitz, 1998). Public goods and externality problems were discussed extensively within the neo-classical approach. Imperfect information and incomplete markets are two areas that are highlighted by new institutional economics proponents.

Institutions are defined as ‘the humanly devised constraints that structure political, economic and social interaction’ (North, 1991). In general, institutions direct, channel or guide the behaviour of individuals. Institutions consist of informal constraints, sanctions, taboos, customs, traditions and codes of conduct, and formal rules, constitutions, laws, property rights, and their enforcement characteristics. Those constraints define, together with the standard constraints of economics, the opportunity set in the economy.

The most important role governments have to fulfil in markets according to new institutional economics thinking is to define and secure property rights using the rule of law. Property rights are of central importance for the allocation and use of resources, as they lay down the legally or institutionally sanctioned possibilities for acting and relating to other subjects in the form of contracts, e.g. for the exchange of goods in markets. The core task for governments is to design property rights and to serve as an efficient and impartial third-party enforcer of contracts between individuals or other parties.

A common problem of governance concerns the so-called ‘agency problem’. This is the problem of making sure that individuals (‘agents’) who are supposed to act on the basis of contracts or rules do not use their authority or information advantage to help themselves at the expense of others. The following cases are relevant: hidden action, moral hazard, hidden information and adverse selection.

In normative principal–agent theory, an incentive system is sought that motivates the agent to decide according to the interest of the principal,
‘Economics of information’ is concerned with the analysis of markets with uncertainties and with asymmetrical information distribution between exchange partners. Its main assumptions are that both the provision and the acquisition of information create costs and that information is asymmetrical distributed (Stigler, 1961). The seminal article on asymmetric information about product quality is the paper by Akerlof (1970) on the market for ‘lemons’. Consumers cannot tell the quality of a used car by inspection; they have to draw inferences about average quality from prices. Basic mechanisms for reducing uncertainty in markets are screening activities by an actor who is less informed, and signalling by an actor who is better informed (see Table 1 for main characteristics of the theory).

The result of differences in information is adverse selection, an unequal or inefficient exchange on the market between two parties. In an adverse selection process, the supplier of a higher quality is likely to infer higher cost for his services, and will thus reap revenues below those of a supplier of a lower service quality. Over the long run, suppliers of higher quality will subsequently be forced out of the market if they have to compete with lower quality competitors, but without further means to communicate their quality proposition.

The problem of lack of information is particularly serious when purchasers know little about product quality, even after they have bought a product or service. The literature distinguishes three types of characteristics that are related to information on product quality:

- ‘Search quality’ characteristics, which can be appraised before a purchase.
- ‘Experience quality’ characteristics, which can best be appraised when purchasing and using the product.
- ‘Credence quality’ aspects, which are product aspects that cannot be adequately assessed, even after purchasing and using the product.

Empirical data are used to verify theoretical positions. The data were collected from European forest-certification policy experts in a survey conducted in late 1998. The countries surveyed, through a mail survey, included all EU member states. The sample comprised all EU member states’ governmental representatives and the EU Commission, who were invited to national expert meetings on forest certification. Such meetings were held on an irregular and largely informal basis for several years during the mid-1990s. The sample furthermore comprised non-governmental representatives from EU forestry and forest-industry lobby groups, international environmental non-governmental organisations (NGOs), as well as organisations that were set up to organise certification. The resulting total sample comprised 60 respondents.

3. Forest certification as an institution to address asymmetric information problems in markets

A claim that the wood of a certain wood product comes from well or sustainably managed forests,
i.e. information on the production process, is a credence quality aspect. The consumer is not able to verify the information before purchase or during use of the product. In the absence of signalling institutions, search and information verification costs for consumers who are interested in this kind of information are very high. These costs have to be compared to perceived benefits that consumers have from the information. The quality of forest management has neither a relation to tangible product quality, nor does it affect health. Consequently, consumers value the attribute, and thus the information, less than other, more tangible product attributes (see Rametsteiner, 2000 for a review of consumer studies carried out on the topic).

The difficulties in creating and supplying credible information on the quality of forest management to market partners also makes it unlikely that suppliers will invest in the supply of such information without outside help. Furthermore, the virtual impossibility of verifying claims without external institutions poses moral hazard problems to competing companies, which might be tempted to act opportunistically and provide false information. In particular, in markets for environmentally friendly products, moral hazard and adverse selection have obviously played a role, if we consider the wave of non-verified and non-verifiable ‘eco-claims’ on products.

Reliable signalling of credence-quality aspects requires specific tools. The three principal mechanisms available for relieving such a lack of information on product quality (Kay and Vickers, 1996) are reputation, licensing and certification. By licensing, the licensor seeks to impose a minimum standard on the market. By certification, an authority provides consumers with information about levels of quality.

Forest certification is an institution for which the core element is providing information on a credence quality aspect. Forest certification as understood here is an established and recognised procedure leading to the issuance of a certificate, based on an independent (third party) assessment of the quality of forest management in relation to a set of predetermined requirements (criteria). It may be accompanied by an agreement on the right (licence) to use a new label on traded forest products (Simula, 1997).

However, as indicated above, the apparent importance, and thus willingness to pay and use the signalling device ‘certification’ by consumers, is limited. As the establishment and maintenance of forest certification institutions at a high quality level is costly, a trade-off has to be found between signalling costs and consumer benefits. This discrepancy between cost and direct benefits of the establishment and maintenance of forest certification institutions as a device to reduce information asymmetries also has to be viewed in connection with the limited effectiveness of forest certification to enhance sustainable forest management.

4. The role of governments in forest certification

The main political objective that characterises certification programmes in the field of forest certification is its incentive to enhance good or sustainable forest management. There is a range of options for governmental positions concerning the issue of forest certification. These options span from refraining to take any action at all to the establishment or support of a full-swing certification programme, and from designing a product market-based single-issue certification system to other forms of certification, such as life-cycle certification, country (non-market) certification programmes, management system certification programmes, and others. In the analysis that follows, only single-issue product certification systems will be considered.

Analyses available show that the effectiveness of forest certification programmes to remedy the most pressing forest-related problems, such as deforestation, degradation on a global scale and forest health in Europe, is not given (Barbier et al., 1993; Varangis et al., 1995; Kiekens, 1997; Rametsteiner, 2000). However, forest certification can result in quite positive effects that are of a more qualitative and indirect nature, and it can contribute in achieving the overall goal of sustainable forest management in ways that are not utilised by other mechanisms. Forest certification can therefore only be regarded as an accompanying instrument in a broader package of instruments.
Apart from the question regarding whether or not governments should actively use forest certification as a market-based incentive to enhance SFM, and probably more relevant for the current debate, governments have to consider which policy to employ towards private or semi-private certification initiatives of international or national character, and the intended and unintended effects they might produce.

The role of governments regarding existing and developing forest certification programmes mainly concerns two aspects: governments have to ensure the compatibility of ongoing activities with laws and international obligations. Secondly, governments have to consider their degree of active involvement in relation to these private initiatives to ensure efficiency and fair play, and to promote desirable quality levels of services by inducing or supporting the reduction of information asymmetries in markets. In cases where governments are owners of forests, they also have to consider the certification of their forests by private institutions.

Governments have to ensure that SFM standards used by private certification programmes comply with the minimum requirements set by laws and regulations. This is usually the case, as forest certification standards drawn up by private bodies regularly stipulate adherence to national or regional legislation as a prerequisite. The most relevant laws and regulations of concern here are the forest, property rights, environment, market and trade-related laws and obligations. What is unclear, however, is how these stipulations are implemented in practice, i.e. which violations are tolerated and which are not.

Concerning international rules, the rules set by the World Trade Organisation (WTO) or the General Agreement on Tariffs and Trade (GATT) are the most relevant. It is generally understood that as long as the certification of wood-based products is voluntary, it is not in contradiction to WTO/GATT rules. This is also the case for voluntary governmental certification programmes, as long as they conform with the rules set forth by the WTO, such as non-discriminatory treatment and transparency (Michaelowa, 1996; Cook et al., 1997). Non-governmental bodies are not subject to WTO jurisdiction, although the Technical Barriers to Trade Agreement contains provisions for certification systems of non-governmental bodies.

While ensuring compliance with existing laws and regulations is an essential part of the role of governments in certification politics, this is not the only guiding function that governments can, or should, exert. Further interventions can be taken in order to enhance efficiency of market conduct, to support private contracting and ensure the enforcement of property rights, to reduce asymmetrical information, or to ensure inclusion of otherwise external effects. In order to stimulate efficiency and equity of forest certification, possible further guidance for and support of private bodies concerns three areas:

- The elaboration and implementation of SFM standards;
- The design and operation of certification systems; and
- The design of market incentives.

4.1. SFM standards and the role of governments

Standards can be categorised in different forms. For study of the role of governments, the most relevant is the distinction between regulative and co-ordinative standards. Co-ordinative standards primarily serve to safeguard compatibility, interoperability or portability of technical components in the larger context of a system. Co-ordinative standards reduce decision uncertainty, information costs and other costs of economic transactions.

While the functioning of co-ordinative standards is in the interest of the participating actors, this is not the case for regulatory standards. Regulatory standards are aimed at preventing negative external effects of a certain technique related to production, sale or use. They usually set benchmarks, maximum or threshold levels, which are neither allowed to be exceeded, nor to be undercut, and by doing this, establish limits for allowed external effects. The quality of regulatory standards is in the interest of the public, but not in the interest of the subgroup of those who are affected. Sustainable forest management or forest management standards clearly fall in the regulatory standards group. They define the extent of externalities that are allowed to occur
and they define the balance between private and public rights, and thus property rights.

Governments have already set minimum legal requirements for SFM standards by the provision of state laws or other legislation. Given that this law is up to date with knowledge and values as present in society in the country concerned, it could be argued that there is little further for governments to do, except to ensure that private bodies adhere to these minimum requirements as set by legislation. However, the very existence and persistence of the issue of forest certification and the debate surrounding certification standards indicates something different.

The legitimacy of setting regulatory standards concerns democratic legitimacy and the technical capability of setting such standards. Legitimacy is directly related to democratic principles and the question as to who is entitled to stand for and act in the name of the public in a state or—even more difficult and complex—in an international setting. The only body legitimised through the political constitutional system of voting is the public authority. Governments have, more than any other single stakeholder group, the legitimacy to define sustainable forest management, and thus they are the most legitimate source for any standards that claim ‘sustainability’.

Governments have already acted in this role to set, in international processes, the reference for many individual standard-setting bodies in larger regions. References for such requirements are existing principles, guidelines, criteria and indicators for SFM elaborated in international governmental processes, such as those of the Ministerial Conference on the Protection of Forests in Europe, the Montreal Process, the International Tropical Timber Organisation, or the African Timber Organisation. They thereby facilitate and ensure better co-ordination of the work and quality levels of different standards by different bodies, and help to avoid non-justified differences in quality levels.

Governmental bodies are usually hampered by a deficit of information on the detailed situation in business administration-related aspects. They therefore tend to refrain from elaborating detailed standards themselves and focus on the co-ordinative control of contexts for their elaboration, either by delegating or moderating the elaboration of standards (see Table 2). Governments can exert considerable power upon negotiation systems for standard-setting by threatening governmental action if the private negotiation and standard elaboration system fail to produce results. A credible threat of governmental intervention is an important prerequisite for successful private governance arrangements (Mayntz and Scharpf, 1995).

Even when governments privatise standardisation tasks, they need to set defaults in order to ensure proper functioning of private governance (Voelzkow, 1996). Table 2 is built on the distinction between regulatory and co-ordinative standards. For international standards, it suggests that the major role of governments lies either in assigning the task of elaborating standards to an organisation with adequate legitimacy to do so, or in ensuring adequate participation of stakeholders in the elaboration process.

Very similar views, as to the role of governments in elaborating SFM standards, were expressed by governmental representatives and non-governmental bodies in the expert survey conducted in the course of this study. A clear preference was expressed for private organisations to act as standard-setting bodies, both by governmental representatives (77% of responses), and non-governmental ones (90% of responses). The importance of broad participation of stakeholders was expressly mentioned by approximately 50% of respondents, despite the fact that this aspect was not specifically asked for. The empirical results indicate that policy actors see democratic legitimacy aspects of forest certification standards as a key element for achieving an acceptable forest certification system.

Table 2
The role of governments in standardisation (source: Werle, 1995)

<table>
<thead>
<tr>
<th>Type of standard</th>
<th>Level of standardisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulative</td>
<td>Delegation</td>
</tr>
<tr>
<td>Co-ordinative</td>
<td>Moderation</td>
</tr>
<tr>
<td></td>
<td>Ensure participation</td>
</tr>
<tr>
<td></td>
<td>Ensure legitimacy</td>
</tr>
</tbody>
</table>

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The situation today is characterised by non-cooperative standardisation through non-co-ordinated imitation processes of coalitions of like-minded groups. Environmental NGOs, who claim to be concerned with adequate provision of public or common goods, have taken the lead in this non-co-operative situation in the 1990s. Their high level of perceived legitimacy to act in the interest of the public on environmental issues is in contrast to their lack of legitimacy from a constitutional point of view. Other actors, including forest owner- and forest industry association-driven initiatives struggle to find a balance between protecting their property rights and attaining legitimacy by the public.

Private standard-setting bodies, such as those associated with the Pan European Forest Certification (PEFC) initiative, use the references elaborated by governments to enhance the legitimacy of their products. Some governments provide financial support to the Forest Stewardship Council (FSC) for its efforts to elaborate standards. Not using the governmental references directly, FSC tries to gain legitimacy by requiring broad stakeholder involvement in standards elaboration.

While commentators on standardisation and the role of governments see an advantage of decentralised control of contexts and networks of negotiations in elaborating standards, a common conclusion is that such systems often face increased conflicts and blockades due to the multitude of actors with different interests. Many authors have also criticised that a proliferation of standardising bodies and systems would lead to increased costs, co-ordination problems, uncertainty and loss of time (see Genschel, 1996). However, there are also advantages of such fragmentation. Firstly, various standardising bodies have to cope with different problems and in smaller numbers; secondly, standardising bodies have to compete (ibid.). Competition in turn results in a propensity to reward initiative instead of a passive ‘wait-and-see’ attitude; it rewards those who are interested in achieving results, and it enables stalemate situations to be overcome through the possibility of shifting to an alternative structure, thus outmanoeuvring blocking parties.

As one group of private parties, namely the environmental NGOs, stand for the interests of the public for environmental public goods, the role of governments is rather to ensure democratic legitimacy of the standard elaboration process by ensuring a balanced representation of different stakeholders. This should ensure balanced economic, ecological and socially justifiable outcomes, as well as a balanced consideration of private property rights and rights of the public.

The second main task of governments concerns technical capability aspects in terms of the know how and resources needed to ensure desired quality levels of the outcome, namely the forest management standards used for certification, especially in developing countries.

Further tasks of governments include encouraging private bodies to use common guidelines for standards elaboration, ensuring broad stakeholder involvement and promoting transparency in the elaboration and use of standards, as well as the principle of continuous improvement. Governments should further promote the use of existing international references for SFM standards and continue to improve these references. A common international understanding of what constitutes sustainable forest management and the equivalency of international references would be an adequate contribution of governments to private sector-led efforts towards multilateral agreements of certification standards, systems and procedures. Establishing commonly agreed references is one way to enhance efficiency by reducing uncertainty, information and co-ordination costs. Many of these tasks have been addressed by various governmental bodies.

4.2. Forest certification systems design and the role of governments

There are many possible governance structures for certification systems or programmes. They include purely public institutions, purely private institutions, collective governance arrangements and inter-individual governance structures (Brousseau and Fares, 1998). The actual behaviour of governments up to now has shown that none of the two extremes of potential governmental
Table 3
Desirability and feasibility of competition (Kay and Vickers, 1996)

<table>
<thead>
<tr>
<th>Competition feasible?</th>
<th>Competition desirable?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Typical case</td>
</tr>
<tr>
<td>No</td>
<td>Dominant actor(s) prevents entry</td>
</tr>
<tr>
<td></td>
<td>Cream skimming</td>
</tr>
<tr>
<td></td>
<td>Severe natural monopoly</td>
</tr>
</tbody>
</table>

Involvement, no action whatsoever or a state certification programme, was seen as practical by governments in most countries. Some governmental bodies have been instrumental in establishing the FSC, including Austria, Netherlands and Mexico. In some other countries, governments have played a stronger role in supporting the creation of non-governmental national certification programmes, e.g. Indonesia and Malaysia, as well as Canada and Finland. Establishing a new governmental forest certification programme is usually not pursued, given the presence of private initiatives. The exception is Russia, where a mandatory forest certification system is being established, which should help the government to control the conduct of private companies in the exploitation of state forest resources.

The results of the national governmental forest certification experts’ survey of EU member states showed that virtually no governmental respondent voted for the establishment of a new certification system by governments. There were, however, different opinions on the degree of governmental intervention into private certification programmes. A majority of 54% of respondents from governmental institutions supported interventions comprising rules of conduct for certification systems and setting accompanying measures, such as encouraging and supporting private bodies in their efforts to build efficient and fair systems. Another 38% thought that the role of government would be fulfilled by setting accompanying measures. A majority of the non-governmental interest groups (66%) found that the role of government should be confined to setting accompanying measures.

From a governmental point of view, a central question is whether it is more desirable to install a monopolistic organisation and endow it with sufficient resources to operate, or whether to support more than one institution in order to induce competition. Market failures involving competition are cream skimming, dominant actors and natural monopolies. Correspondingly, three types of governmental interventions can be distinguished in relation to competition: to contain monopolistic behaviour; to limit competition; and to promote competition (Kay and Vickers, 1996). In the case of private certification programmes where competition is clearly feasible, reducing competition will lead to cream skimming by those enjoying a monopoly (see Table 3).

Non-competitive arrangements lead to cream skimming and increasing inefficiency of the monopolist, as there is little incentive for keeping efficiency high. Organisations in such positions maximise individual benefits. The ex post costs of such monopolies is hard to quantify, but they can easily exceed ex ante establishment costs (see e.g. Dichmann, 1992). However, a monopolistic or oligopolistic structure with few or one single label would have some advantages in terms of information costs for consumers.

Based on the basic paradigms of neo-classical thought, that efficiency is enhanced by competition, the role of governments is to enhance competition where it is both feasible and desirable. North (1991) observed that the greater the competition amongst organisations, the greater the incentive to invest in skills and knowledge to enhance the organisation’s survival opportunities. However, increasing competition between certification bodies raises questions about conflicts between running a business and maintaining consistent standards of certification, especially in contexts prone to moral hazard and hidden information.

Competition between different service providers bears the risk of moral hazards for service provid-
ers to reduce the quality of services, if this quality cannot be adequately assessed by outside actors or clients. Both the Forest Stewardship Council (FSC) and the Pan European Forest Certification (PEFC) face, for more or less the same reasons, difficulties in guaranteeing perpetuity in quality of services if they are not actively supported or checked through other institutions. Both organisations have to accommodate considerable differences in interests among their members. For both, financial sustainability is unsure, and they therefore have to depend on external sources. Instability factors that threaten the existence of organisations tend to distract from ensuring the quality of services provided. In practice such processes have already been observed in forest certification in the case of FSC certification (Kiekens, 1997; Simula, 1997; de Camino and Alfaro, 1998; Romeijn, 1999), within one certification programme and/or due to competition between different FSC certifiers. Likewise, the actual conduct of certification through the PEFC scheme has come under attack from environmental groups, e.g. Greenpeace (2001).

Low quality conduct of certification, including low quality auditing, independence violations, etc., has negative knock-on effects on the reputation, and thus competitiveness, of the overall certification programme. However, this is only the case if a competitor is able to exploit weaknesses and if competing certification programmes have the resources needed to survive in a competitive environment.

The governments face a choice between two evils: cream skimming in a certification programme monopoly, or adverse selection in competition between certification programmes. In a monopolistic case, it is not in the private party’s prime interest to provide a high quality service of conformity assessments. As the conformity claim is also not verifiable by the consumers of the product, there is an incentive to reduce quality to a minimum over time by all parties involved. There is not only a small risk of ‘getting caught’ if one behaves opportunistically, but there is also little on which to base liability claims, which reduces litigation risks.

In the competition case, the adverse selection effect puts higher quality service at a disadvantage against competitors if the quality difference cannot be communicated. High-quality service providers for certification programmes, such as auditors, would be driven out of the market as the competition gets stronger. This is highly probable in a setting where forest certification standards are of a regulatory nature and vaguely formulated, as the demand side is potentially interested in lower quality of service from the very beginning, and as vague definitions expand the subjective range for judgement in assessments.

The better governments can prevent adverse selection processes from occurring, especially for the auditing component of certification systems, the more desirable it is to opt for competition between programmes. Setting minimum requirements for institutional structures and procedures is a form of reducing adverse selection problems. Minimum requirements communicated by governments in some form, which adequately address the most risk-prone issues for adverse selection, will allow private parties responsible for or interested in high quality to refer to such requirements or guidance.

A whole range of guidance for minimum requirements on an international level has been elaborated by private institutions and bodies concerned with conformity assessment in general, such as the International Standards Organisation (ISO), and accreditation umbrella bodies, such as the International Accreditation Forum (IAF). For governments it would largely suffice to call on parties to use these as reference.

Minimum standards that exclude some potential suppliers from the market will enhance the average quality offered on the market; however, the average quality will most likely oscillate around the minimum requirement, as the adverse selection mechanism again hits those suppliers that work above this quality level. There are several options regarding the legal nature of such minimum requirements, e.g. by binding legislation, voluntary agreements or voluntary recommendations.

The expert survey conducted in the course of this study has asked governmental and non-governmental representatives of EU member states
about their preferred legal form for such arrangements. A clear majority of respondents from both governmental and non-governmental representatives (total of 55%) preferred voluntary agreements over legally binding forms of establishing frameworks for certification. The establishment of minimum requirements on a national level through legislation was viewed as the least preferred option. Similarly negative was the answer to an EU Directive.

Further tasks of governments concern: the encouragement of private bodies to actually use existing, internationally recognised standards on certification systems and procedures; encouraging transparency and equal access to services and information; assistance in improving qualification of human resources; and general capacity building. Concerning harmonisation and multilateral agreements between certification schemes, a balance has to be found between the reduction of costs for signalling for the different parties on the one hand, and the negative effects of moving towards a monopoly situation on the other.

5. Strengthening market incentives

Market incentives can be initiated using several types of instruments. Two areas that can be used to direct markets through direct financial incentives are public procurement and tariff measures. Unlocking the incentive potential of public procurement rules would constitute a major driving force for market-based redirection of economic conduct towards broader goals, such as sustainability-related policies. For instance, the value of public procurement in the EU markets is in excess of 700 billion ECUs, or 11% of European Union gross domestic product. Any conditions set up by governmental bodies that favour sustainably produced products and objective verification mechanisms would greatly enhance the incentive to utilise forest certification for those parties exposed to the markets concerned. Such stipulations have been issued in different forms or discussed by different European governments recently, including the UK, Netherlands and Denmark. Similarly, the EU has adopted a European Union Strategy for Sustainable Development in 2001. This strategy might over time redirect considerable volumes of products towards more sustainable materials.

Another possible fiscal instrument that can be applied are tariff reductions for certified forest products. The General System of Preferences (GSP) of the EU includes a clause to reduce tariffs for forest products from developing countries that can be demonstrated to be from regions where sustainable forest management is applied. To use this stipulation as market incentive for high-quality forest certification programmes would require a specification from the EU as to what quality of verification is required.

6. Discussion and conclusions

The new institutional economics-based approach to study the role of governments in forest certification has shown that all major issues at stake in the actual debate on institutional aspects related to certification can profit from this point of view for practical decisions. Empirical data collected in the course of this study also showed support for the recommendations derived from theory-based positions. Normative analysis of the role of government in certification, as approached in this paper, is characterised by the fact that a good part of the arguments and outcomes is determined by the initial position that is taken, in terms of the type of economic school chosen as the basis for the analysis. Nevertheless, the new institutional economics approach seems to be able to describe and explain many phenomena in the ‘real world’ discussion of the certification issue better than other approaches. The approach taken allows insights into mechanisms that traditional analyses are not able to grasp in a similar manner, and it is able to deliver rather clear recommendations for key aspects.

It has, however, proven to be difficult to compare and evaluate different systems using utility value approaches, such as market efficiency, for comparing optional designs of systems. This low level of direct comparability between different designs makes it easy to take, e.g. the adverse selection process as an argument for governmental guidance in terms of minimum quality standards. In fact, the magnitude, and thus the relative impor-
tance, of such processes remains largely undetermined. Whatever analysis is used, the responsibility of governments for their action or non-action on such important issues as the proper use of our resources remains.

Acknowledgments

Most of the work for this paper has been undertaken in the context of the EU funded research project on forest certification within the 4th Framework Programme titled: ‘Policy Analysis of the Certification of Forest Management as a Policy Instrument for Promoting Multifunctional Sustainable Forest Management’ (FAIR CT 766-95).

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