






Forest Stewardship Council®



Impact assessment of the revised Chain of Custody standard

FSC-STD-40-004 V3-0 EN

Title:	Impact assessment of the revised Chain of Custody standard
Status:	Draft
Contact for comments:	FSC International Center - Policy and Standards Unit - Charles-de-Gaulle-Str. 5 53113 Bonn, Germany
	 +49-(0)228-36766-0
	 +49-(0)228-36766-30
	 policy.standards@fsc.org

The Forest Stewardship Council (FSC) is an independent, not for profit, non-government organization established to promote environmentally appropriate, socially beneficial, and economically viable management of the world's forests.

FSC's vision is that the world's forests meet the social, ecological, and economic rights and needs of the present generation without compromising those of future generations.

Introduction

This document contains an assessment of the potential impacts that the revised CoC standard would have on FSC and FSC stakeholders. The impact assessment aims to respond to the decision of the FSC Board of Directors at the BM71 meeting in March 2016, “requesting the FSC secretariat to set up a new system of feasibility and impact analysis”, to better align policy and standards work with the FSC Global Strategic Plan.

The analysis was done by FSC staff as a desk-based study and intends to serve stakeholders as a complementary source of information during the third round of public consultation of the revised draft CoC standard. A revised report will be shared with the FSC Board together with the final draft standard to inform the decision making process.

The following methodology was used for the assessment:

The FSC Global Strategic Plan was reviewed as well as the Policy and Standards Unit Review Report template, which contains a set of questions to guide development of impact assessment reports. In addition to relevant FSC membership Motions of past General Assemblies (GAs), stakeholder feedback provided during the chain of custody revision process and working group discussions were considered.

What are stakeholders’ expectations?

A core expectation as formulated in FSC’s Global Strategic Plan, critical result area 1.1 is that “FSC will improve certification uptake, cost-effectiveness and outcomes by stabilizing and simplifying FSC policies, standards and procedures while maintaining system integrity, transparency, and credibility.”

The revision of the CoC standard is additionally guided by a number of motions approved by the FSC membership during the FSC general assembly in 2011. The expectations of the FSC membership covers a wide range of topics, which can be grouped into 2 categories:

Improving access to and benefits from CoC certification

- Motion 38 called for a chamber-balanced study to be conducted to evaluate the risks and benefits of pre-consumer material from a market, environmental and social perspective.
- Motion 44 called for the revision of the CoC standard and development of tools and templates to improve access for small enterprises to CoC certification.
- Motion 45 required FSC to examine barriers and opportunities for enhanced FSC-retailer collaboration, including improved CoC procedures.

Providing clarity

- Motion 43 requested the development of a policy to guide certificate holders in communicating truthfully and transparently about FSC Mix products whose visible and characterizing components are not FSC-certified but are Controlled Wood.
- Motion 46 required FSC to clarify the intent of the credit system, in particular by providing clarification on key definitions used to apply the CoC control systems, such as “product groups”, “quality of inputs” and “conversion factor”.

Additionally, following stakeholder feedback, the following topics have been considered in this consultation:

Transaction verification

FSC is proposing new criteria to address the risk of false claims in the system, which is called “transaction verification”. Transaction verification is a mechanism that enables certification bodies (CBs) to confirm that FSC input and output claims made by certificate holders are correct and match the declared FSC inputs and outputs by their trading partners. As part of this process, FSC has developed the Online Claims Platform (OCP) as a method to enable transaction verification. Several stakeholder groups are advocating the introduction of transaction verification requirements and would like to make the use of the OCP mandatory for all certificate holders. Some CBs support this approach, arguing that it would only serve the purpose if the OCP becomes mandatory for all certificate holders. Other stakeholder groups, including some CBs have expressed several concerns regarding potential implications of this proposal, such as data security, increased complexity and costs. Certificate holders’ acceptance and support for transaction verification greatly varies and ranges between support for mandatory use of OCP for all CHs to objections for any additional requirements.

Social requirements

Some social and environmental chamber members have expressed the expectation during the course of the CoC revision process that the existing social requirements in the CoC are amended. The current CoC standard requires organizations to “demonstrate commitment to the FSC values” as defined in the Policy for the Association of Organizations with FSC (FSC-POL-01-004). Additionally the standard lists the unacceptable activities as defined in the policy for association, which includes violation of any of the ILO Core Conventions. Organizations are asked to declare that they are not involved in any of them.

During the second round of public stakeholder consultation, several participating social and environmental stakeholders requested that requirements for certificate holders’ compliance with the ILO Core Conventions should be introduced as part of the current CoC revision process and provided a wording proposal for a set of criteria.

Cross-site percentage and cross-site credit control methods

Since the introduction of the FSC credit system, some organizations that hold multi-site certificates have shown an interest in a system that would create opportunities for improved logistical solutions. Cross-site application of the credit and percentage control systems could relieve the need to physically transport goods between the different sites that are covered in the organization’s certificate. However, this proposal has also raised concerns from other stakeholders that fear that this type of system may introduce unknown and uncontrollable impacts on FSC supply chains and in the certification of forests. Social chamber members and most environmental members therefore strongly reject the proposed cross-site credit system. Cross-site methods have been under review by FSC since 2011, first through a proposal that would apply to the credit system and more recently through the consideration to include a similar model for the percentage system.

How have these expectations been addressed in the revised standard draft?

Motion 38

This motion required FSC to conduct a study to evaluate, from economic, environmental and social perspectives, the risks and benefits of valuing pre-consumer

reclaimed paper fiber materials as FSC-certified content. The study was drafted as a discussion paper, based on stakeholder input collected through an FSC membership survey, a stakeholder workshop and telephone interviews with paper companies. Between 25 September 2013 and 15 January 2014, the discussion paper was subjected to targeted consultation with the FSC membership and interested stakeholders. The results of the study and consultation feedback showed that the FSC membership supports the proposal of granting pre-consumer paper fiber the same value as post-consumer material. The FSC Board in its 66th meeting (July 2014) decided to classify pre-consumer reclaimed paper as a claim-contributing input toward percentage and credit calculations. This decision has already been implemented by FSC in 07 October 2015, through the publication of ADVICE-40-004-13.

Motion 44

As a response to Motion 44, FSC discussed with the working group and the CoC consultative forum the proposal of developing a simplified CoC standard for small and low-complexity enterprises. A first draft of this simplified standard was developed and shared with the working group and consultative forum for comments. The feedback and conclusion of this initial process was that the idea of having two CoC standards (FSC-STD-40-004 and another standard for small and low-complexity enterprises) could create confusion and add complexity to the system instead of simplifying it. Another conclusion is that FSC should better engage representatives of these small and low-complexity organizations in order to better understand their needs and develop standards and tools to facilitate their certification.

Based on this, FSC decided to put on hold the proposal of developing a simplified CoC standard until the revision process of FSC-STD-40-004 is concluded. The revised FSC-STD-40-004 draft was developed considering the overall interest of stakeholders, which is to have a streamlined and simplified CoC standard that fits companies of all sizes. After the revised requirements are approved, FSC will look into options to further simplify or explain the requirements to small and low complexity enterprises.

The revised CoC standard will offer some improvement for small enterprises (in response to motion 44) via an online tool that is currently being developed to allow certificate holders to only print those sections of the standard that are relevant to them.

FSC also received feedback that some requirements of the current CoC standard are not easily implementable by building contractors. In order to better understand these issues, FSC consulted stakeholders and organized a meeting with certification bodies, companies and FSC network partners to collect their input for this revision process. Some requirements were also changed to address the needs of this group of stakeholders (e.g. changes in the reporting and identification of sales documents requirements).

Finally, FSC added a number of examples, tables and graphics to the standard to facilitate the understanding of several requirements.

Motion 45

FSC consulted the motion proposers and retailers to better understand their difficulties in implementing the current CoC standard. Some changes are being proposed in this revision process to facilitate the certification of retailers (e.g. changes in the product group, verification of incoming invoices and volume summaries requirements). FSC is currently exploring whether the traceability of products that pass through traders and brokers and the verification process for retailers could be done in an efficient and economically feasible manner via the OCP.

Motion 43

This motion requests the development of a policy to guide certificate holders in communicating truthfully and transparently about FSC Mix products whose visible and characterizing components are not FSC certified but are controlled wood. In the first draft, FSC included a clause requiring these visible components to be certified. This proposed change resulted in significant negative feedback from stakeholders. Many stakeholders argued that such requirement would make the certification of several products and industries unfeasible. FSC also consulted the motion proposers, who clarified that the proposed clause in the first CoC standard draft was not in line with the motion request and explained that they expected the motion to be addressed through the trademark standard and not FSC-STD-40-004. The motion was also discussed by the working group responsible for the FSC trademark revision which concluded the unfeasibility of the motion implementation. The current FSC trademark rules do not allow companies to promote FSC Controlled Wood. Therefore, the proposal that companies are required to identify visible components that are FSC Controlled Wood would cause a conflict with FSC trademark rules.

Motion 46

In response to Motion 46, which requires FSC to clarify the intent of the credit system, FSC revised the requirements on the establishment of product groups and some elements of the credit system. The current requirements on product groups for which the percentage or credit system is applied specify that the product shall share similar specifications in relation to quality of inputs and conversion factors. The term 'quality' is now defined in the Terms and Definitions section, since the lack of a definition lead to inconsistent application of the product group concept by several certificate holders and certification bodies. The revised product group criteria also specify the conditions for the establishment of product groups and the substitution of input materials within a product group.

The period for credit expiration was extended from 12 to 24 months, since many companies reported that credits were being lost due to the cycle between sourcing and sales with FSC claims being longer than the validity of the credits.

Another critical topic in the first draft was the requirement that organizations should establish separate credit accounts for input materials of different quality in the case of assembled wood products. FSC received considerable negative feedback regarding this proposal during the first consultation. Several companies reported that they would experience difficulties in maintaining their certification if this change was implemented. The second and third drafts no longer include this requirement, but provides an approach similar to the percentage system: that when the high-quality input material is sourced as FSC controlled wood, it does not represent more than 30 percent of the product composition.

The revised standard also includes a new Annex B with several examples of product group requirements application in order to facilitate the understanding of the requirements.

Transaction Verification

FSC received a considerable number of comments from stakeholders regarding this proposal, some supportive and others expressing concerns regarding potential implications, such as data security, increased complexity and costs and a need for a risk based solution. In order to respond to stakeholders' comments and provide them with more detailed information about this proposal, FSC prepared a discussion paper regarding transaction verification and possible options to meet the proposed criterion for stakeholder input which went out for public consultation along with the second draft

of FSC-STD-40-004. In addition to public consultation of standard and discussion paper, FSC has collected significant stakeholder feedback on this proposal through interviews, pilot tests, stakeholder meetings and surveys. The results were incorporated to the third standard draft which provides a new risk-based proposal for transaction verification.

Social requirements

This requested task was not part of the scope of the current CoC revision process. However, certificate holders' commitment with ILO core conventions is an element of the FSC Policy for Association. Following stakeholder feedback, the FSC Board of Directors mandated the FSC Policy and Standards unit to conduct a two-step process to achieve an FSC system-wide solution for certificate holders' compliance with ILO Core Conventions principles. A separate subchamber balanced working group is currently developing a set of draft criteria and indicators which will be presented to the FSC Board for approval in March 2017. The objective of this process is that criteria and indicators will be translated into auditable requirements in a follow up process after March 2017.

Cross-site percentage and cross-site credit control methods

The cross-site credits method was pilot tested by 15 companies and the results submitted to the FSC Board of Directors in June 2013. The FSC Board decided that the results of the pilot project should be fed into the ongoing revision process of the CoC standard (FSC-STD-40-004) for broader stakeholder consultation and further deliberation at the end of the standard revision process. The proposed requirements for using cross-site credits method were publicly consulted in the first and second draft of FSC-STD-40-004. In this third consultation, the draft standard additionally includes proposed requirements for a cross-site percentage method.

What are the impacts on stakeholders?

Impact on certificate holders and applicants

The revised standard provides a clearer, streamlined set of requirements, as existing interpretations and advice notes have been considered and incorporated in the main CoC standard, where feasible. Additionally, a number of graphics and tables were developed to illustrate the understanding of some key requirements. This does not reduce the size of the document, but makes the requirements more accessible. Some requirements have been reworded to make them easier to understand, e.g. how to set up product groups, since previously, many certificate holders had difficulties in understanding how this basic CoC concept functions.

The overall structure of the standard was kept as it was accepted by stakeholders to be sufficiently clear. During the first public consultation, many stakeholders requested FSC to not change the current standard structure (starting with universal requirements applicable to all certificate holders and moving on to specific requirements and more complex systems, which are only applicable to some certificate holders), and only improve or clarify the existing requirements where needed. An overarching principle of the revision process was to only change what really requires changing, as every change means that certificate holders and certification bodies have to adapt their systems.

The new graphics and tables added to the standard will also make it easier for new applicants to join the FSC system. In general, stakeholders appreciated this to be a good step towards making the standard more user friendly, although some would have preferred to have a standard that is as short as possible. As a compromise the graphics

and examples of product groups have been added as annexes to the standard, not integrated in the main body of the document.

Some requirements have been simplified and are more outcome-oriented, such as more flexible requirements regarding annual volume summaries and material handling and checking of sales documentation. This makes the standard less prescriptive while maintaining the same end result.

Existing gaps in the standard have been closed, e.g. by including requirements for how certificate holders are expected to handle complaints. Previously certification bodies were required to check certificate holders' records of complaints, but no certification requirements were in place that provided clarity on what organizations are expected to do. A simplified version of the accreditation standard complaints process requirements was added to the standard. Some stakeholder appreciate having clarity on what is required, but some are also concerned about the increase in complexity.

The third draft standard also includes a proposal that the eligibility criteria for single, multi-site and group CoC certification which are currently presented in FSC-STD-40-003 standard are moved unchanged to the Annex A of FSC-STD-40-004. This will help certificate holders to more easily choose the right certificate type applicable to their activities.

Table A. Estimated factors that may decrease or increase the costs for certificate holders.

Factors that decrease costs for certificate holders	Factors that increase costs for certificate holders
<ul style="list-style-type: none"> • Clearer wording of the standard, the graphics, examples, tables and the simplified requirements is likely to have an overall cost decreasing factor, in particular for applicants, as it will become easier to understand and apply the revised CoC standard. • More outcome oriented requirements will have a cost decreasing factor for certificate holders, as it provides them with more flexibility to reach the same end-goal. • Incorporation of advice notes and standard interpretations reduces the complexity for certificate holders conformity with certification requirements • Cross-site credit and percentage methods would significantly reduce costs for some certificate holders by creating opportunities for improved logistical solutions • Same value of pre-consumer reclaimed paper material as post-consumer has a significant impact on decreasing costs for some organizations in the paper industry. • Using the OCP may help organizations conform to certification requirements and reduce the number of audits. • Extended period of FSC credits expiration from 12 to 24 months may reduce the amount of FSC certified products being sold as non-certified. 	<ul style="list-style-type: none"> • Additional requirements (e.g. complaints/application of the credit system for the production of assembled wood products) impact at least some certificate holders • Clarified requirements for the application of the credit system (e.g. regarding substitution of products) may have a cost increasing impact on some certificate holders. • Transaction verification: based on the proposed risk-based approach, some certificate holders that classify as high-risk would face increased administrative costs (to enter FSC transaction data in the OCP) • An additional cost factor to be considered is the likely increase of auditing time needed to verify a sample of transactions during an audit. All certificate holders will be affected by this whether or not they will be required to actively use the OCP.

Impact on certification bodies (CBs)

CBs will need to adapt their system to the changed CoC standard (e.g. changing procedures and checklists) and to train their auditors accordingly. This will require one-off time and resource investment. Even though there are only limited changes to the actual contents of the requirements and the structure has stayed nearly the same a lot of the standard language has been amended.

The impact on CBs will also depend on the final requirements for transaction verification and who will be responsible to conduct the risk evaluation. Increased auditing time will most likely be passed on to clients and may make certification more costly, which could have a negative impact on the business of certification bodies. On the other hand CBs may also have reputational benefits from increased credibility and integrity of the FSC system, attracting more clients.

For the requirements that are more outcome-oriented it may be more difficult for the certification bodies to establish with which means are acceptable to conform to the requirements. A risk mitigation measure could be that FSC develops some guidance material.

Certification bodies will overall benefit from the revised CoC standard as it provides clearer requirements e.g. regarding the application of the credit system (in response to motion 46 which was proposed by a certification body). This is likely to improve consistency of auditing and thereby ensure a more level playing field for certification bodies. The simplified requirements and illustrations and tables provided will in particular make it easier for new certification bodies to become FSC accredited and to train auditors.

Impact on Accreditation Services International (ASI)

The impact on ASI, FSCs' accreditation body, is likely to be positive. Due to the improved clarity of the revised standard it should become easier for ASI to audit and accredit certification bodies. Auditing consistency of CoC requirements should be improved as explained above and the implementation of transaction verification requirements will also strengthen the accreditation system.

Impact on FSC membership

Economic

In addition to the impacts on certificate holders and certification bodies as presented above, the economic chamber also includes industry associations, federations and individuals. The effects on industry associations and federations are correlated with the certificate holders they represent. For example, the Confederation of European Paper Industry (CEPI) proposed motion 38, which resulted in the FSC Board of Directors' decision to grant pre-consumer paper material equal value as post-consumer paper material. Certificate holders using reclaimed material in the paper industry are likely to benefit from this decision. However it also adds complexity to the CoC requirements, since different requirements are now in place for reclaimed pre-consumer paper versus reclaimed pre-consumer wood material.

Environmental and social

The social and environmental chambers have similar expectations towards the revised CoC standard, including the introduction of transaction verification requirements and the expansion of the social requirements to cover compliance with the ILO Core Conventions principles (as presented above).

The revised CoC standard will offer some improvement for small enterprises (in response to motion 44), e.g. via an online tool that is currently being developed to allow

certificate holders to only print those sections of the standard that are relevant to them. Based on stakeholder consultation feedback a separate draft Simplified CoC Standard for Small and Low Complexity Organizations (FSC-STD-40-008) was created to offer a more targeted solution to small and low complex CoC certificate holders. PSU has scheduled this process to be continued after the approval of the revised CoC standard. The expectations of the social chamber are therefore currently only partially met.

The social chamber is supporting the clarification on the application of the credit systems that the revised CoC standard provides, but is generally requesting to tighten up CoC requirements rather than making them more flexible.

Impact on Network Partners

Network Partners will benefit from having a clearer and simpler CoC standard, as it will be easier for them to explain the revised CoC standard to stakeholders. Where the revised CoC standards may lead to increased CoC certification they will also see direct financial benefits.

Concerning transaction verification the impact on Network Partners may differ depending on the support of stakeholders, which varies among the FSC membership and also between certification holders at country level.

Impact on FSC

The Policy and Standards Unit (PSU) will benefit from the revised CoC standard as greater clarity of the requirements is likely to decrease the number of interpretation requests from clients (mainly certification bodies and network partners).

The PSU will require resources (time, money) to develop training/ guidance material to support certification bodies in adapting their systems to the new/ changed requirements and to monitor the implementation of the revised CoC standard.

The clearer and overall streamlined set of requirements will make CoC certification more attractive.

FSC's integrity will be strengthened with the introduction of requirements for transaction verification and the clarification of the credit system.



Forest Stewardship Council®

ic.fsc.org

FSC International Center GmbH
Charles-de-Gaulle-Straße 5 · 53113 Bonn · Germany



All Rights Reserved FSC® International 2016 FSC®F000100