IMPACT ASSESSMENT ON AUDITABLE SOCIAL REQUIREMENTS FOR THE ILO CORE CONVENTIONS PRINCIPLES V1-0

FSC

Forest Stewardship Council®

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Title:	Impact assessment on auditable social requirements for the ILO Core Conventions principles V1-0
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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.

Executive summary

This report assesses the potential impacts that auditable social requirements for compliance with the International Labour Organization (ILO) Core Conventions principles would have on FSC certificate holders (CHs) and stakeholders. It accompanies the draft *FSC report on generic criteria and indicators based on ILO Core Conventions principles*, and will be amended based on further stakeholder feedback.

The report was developed as a desk study, whereby previous reports produced by FSC, and stakeholder comments provided during consultations on the revised chain of custody (CoC) standard, were reviewed and analysed.

The concerns and expectations of the FSC membership towards this issue differs between chambers. The **social** and **environmental** chambers support the FSC International Board of Directors' decision to develop an FSC system-wide solution for CHs' compliance with the ILO Core Conventions principles, whereas the majority of the **economic** chamber members question the need to introduce auditable social requirements in CoC certification, and are concerned about potential cost implications.

Impact assessment

This assessment concludes that the **overall impact** on the FSC membership would be **positive**, as the introduction of auditable social requirements:
- responds to the expectations of social and environmental members
- will strengthen the credibility and reputation of FSC, and, hence, the credibility of those businesses in the economic chamber.

The cost impact on CoC CHs will depend on the design of the auditable social requirements, and how they will be verified, but is likely to be **negative**. It is expected that CoC CHs will face higher costs once auditable social requirements are introduced into the CoC standard.

Forest management (FM) CHs are not expected to have higher costs, since the current FM standards already include auditable social requirements, and only clarification of existing requirements or minor amendments should be necessary.

The overall impact on certification bodies (CBs) and Accreditation Services International (ASI) would be **neutral** assuming that a system is designed that will not lead to a decrease in the number of certificate holders.

The impact on network partners (NPs) and the FSC International Center is expected to be **positive**, conditional to sufficient resourcing to support the process and maintain requirements. The process is aligned with key aspects of the *FSC Global Strategic Plan 2015-2020*.

Impact matrix

	Positive (+)	Neutral (0)	Negative (-)
FSC members	🟢		
Economic	🟢		
Environmental	🟢		
Social	🟢		
Certificate holders	🟢		
Cost impact CoC CHs			🔴
Cost impact FM CHs		🟡	
Certification bodies		🟡	
ASI		🟡	
Network partners	🟢		
FSC IC	🟢		
Global strategy	🟢		
Simplified		🟡	
Outcome-oriented	🟢		
Risk-based	🟢		
Deploy new solutions	🟢		

Conclusion

The **overall impact** seems to be **positive**, but FSC needs to ensure that the auditable social requirements are clear, outcome-oriented, and can be feasibly implemented by any CH.

I. Introduction

This report assesses the potential impacts that auditable social requirements for compliance with the ILO Core Conventions principles would have on FSC CHs and stakeholders, and is a response to the FSC International Board of Directors decision from 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 2015-2020*.

II. Methodology

The following methodology was used for the assessment.

- The *FSC Global Strategic Plan 2015-2020* was reviewed.
- The Policy and Standards Unit (PSU) Review Report template, which contains a set of questions to guide the development of impact assessment reports, was reviewed.
- FSC membership motions from past general assemblies were reviewed.
- Stakeholder feedback provided during the chain of custody revision process, including working group discussions and feedback from the consultative forum, was considered.
- Secondary information was reviewed, mainly the Kastenholz, E (2008) *Workers' rights and Working Conditions in the Chain of Custody for FSC Certified Products – Social Chain of Custody* report.

The impact assessment report was shared with the ILO Core Conventions principles working group and the steering committee guiding the revision process.

Stakeholders are asked to provide any input on this impact assessment report during the public consultation of the draft *FSC report on generic criteria and indicators based on ILO Core Conventions principles* between 10 October and 8 December 2016. A revised report will be shared with the FSC International Board of Directors to inform the decision-making process.

III. Delivery on stakeholder expectations

History

The development of auditable social requirements for compliance with the ILO Core Conventions principles is an important issue for the FSC membership, though, to date, the main focus has been on workers of FSC-certified forest management enterprises. This is reflected in the *FSC Principles and Criteria*, the international generic indicators, and national forest management standards.

At the FSC General Assembly 2008 motion 39 was passed requesting the development of an *FSC Policy for Association* that required all CHs to 'comply with the core ILO Conventions'. This led to the revision of the CoC standard requiring CHs to demonstrate their commitment to comply with the values of FSC as defined in the *FSC Policy for Association*. CBs currently verify this compliance by checking if CoC CHs have signed a self-declaration that includes reference to the ILO Core Conventions principles.

Social chamber

Members of the social chamber regard the self-declaration tool included in the CoC standard as an insufficient mechanism to ensure compliance with the ILO Core Conventions principles, and have a **clear expectation** that FSC develops auditable social requirements for all FSC CHs.

Based on previous interviews, it is clear that trade unions are strong promoters of fully incorporating labour standards in FSC CoC certification. This stems from the political and social mandate of the trade unions that workers in all sectors where FSC-certified timber is handled must have the same rights and protections.

Trade unions value FSC certification, as labour issues are strongly represented in the system, and they appreciate the equality inherent in the three-chamber membership structure. However, they find a contradiction in having auditable social requirements in FM, but not CoC, certification requirements, and believe it impacts the credibility of FSC amongst their membership base. In response to these concerns, the FSC International Board of Directors decided in 2014 that a system-wide solution for CHs' compliance with the ILO Core Conventions principles should be developed.

Environmental chamber

The expectations and concerns of environmental chamber members are **less clear**.

At the FSC General Assembly 2014, motion 35 'Interpretation of the ILO Conventions even in countries that have not ratified them' was strongly supported by the social and environmental chambers, but did not pass in the economic chamber, and hence the motion failed.

During the CoC standard revision process several environmental chamber members requested the introduction of auditable social requirements in the CoC standard.

Economic chamber

The expectations and concerns of economic chamber members **vary**.

Reasons for inclusion of auditable social requirements for all CHs
Credibility throughout the supply chain is a key reputational concern for many businesses who are represented in the economic chamber. Due to varied national labour laws, and the inconsistency of ratification of the ILO Core Conventions principles around the world, some economic chamber members do understand the need to provide protection of workers as part of CoC certification. Previous interviews (Kastenholz, 2008) indicated that some economic chamber members are also concerned about the risk to the credibility of FSC and CHs due to the current self-declaration (and alternative self-declaration), as it makes a high-level statement about compliance with the ILO Core Conventions principles without clarifying the measures CHs need to take to ensure compliance.

To prevent harm to FSC´s credibility, a report on social requirements for CoC certification (Kastenholz, 2008) urges FSC to take a risk-based approach, and, so, focus verification of compliance with ILO Core Conventions principles where non-conformity is most likely to be found.

Reasons against inclusion of auditable social requirements for all CHs
The major concern of economic chamber members is the increased costs for CoC CHs.

In a previous study (Colden and Smith, 2005) industry actors stated clearly that all costs connected to additional certification efforts must have a value for the enterprise concerned. Even today, for many small enterprises in the production chain, it is not evident that the effort taken to maintain FSC certification has a visible benefit for the enterprise. The implications of new costs could push many CoC CHs to leave FSC, and engage with competing certification schemes.

At the FM level, key requirements are already included, and, therefore, there may be concern about the potential need to review and adapt the national standards (again) when the generic criteria and indicators are translated into auditable social requirements.

CHs and CBs regularly voice their concerns about frequently having to adapt their management systems to changed FSC requirements, and the administrative burden that development and revision processes have on the FSC system and stakeholders.

Some economic chamber members believe that FSC should not 'duplicate' national laws and should continue to focus its efforts on FM, without introducing auditable social requirements as part of CoC certification. Some economic chamber members question if there is a demand from consumers of FSC-certified products that auditable social requirements be included as part of CoC certification, rather than just at the FM level, and if it is even feasible (both in technical and political terms) to do so.

The belief that CoC certification should be used as a tracking instrument was stated clearly by some of the respondents to a survey carried out by Colden and Smith (2005). However, industry actors responded with a strong opposition against any change or amendment as they stated a tracking instrument must not be used as a means to promote performance standards.

IV. Impacts on stakeholders

General

With the implementation of auditable social requirements for compliance with the International ILO Core Conventions principles for all FSC CHs an enabling environment to improve working conditions will be created. The implementation would likely see a **reduction in conflict** between employers and workers' organizations, and strengthened relations with communities to address issues such as discrimination, child labour, and forced labour.

Additionally, CHs could demonstrate **social sustainability** when accessing credit facilities for instance, as in the case of International Financial Institutions (IFIs) when asking for evidence on performance standards related to workers' rights, leading to increased credibility.

Impact on FM CHs

A review carried out by Peter Poschen in 2000 detailed that the ILO Core Conventions principles have been, to a considerable extent, already operationalised in the FSC FM criteria. FM CHs have been addressing ILO Core Conventions principles with what is now specified under Principle 2 of the *FSC Principles and Criteria* V5-2, and the international generic indicators.

For FM CHs auditable social requirements are not likely to change much, and, therefore, the **cost impact is not expected to be significant** in terms of operational changes. Though, the generic criteria and indicators could provide additional clarity by defining key elements of the related ILO Core Conventions principles.

Impact on CoC CHs

For CoC CHs the implementation of the generic criteria and indicators could have a **significant cost factor**, depending on how the auditable social requirements are formulated and verified. If a risk-based approach is taken to verify compliance the cost impact will depend on the risk of non-conformity of CHs.

In general, it is expected that CHs will initially need to invest time and money to establish or amend existing procedures and to train staff. In countries with strong labour laws CoC CHs may only need to make slight adjustments. Auditors (in particular those auditing CoC CHs) will need to be trained, which will be a significant cost factor for CBs and, thus, for CoC CHs, as it is likely to result in increased certification costs. Additionally, more time and resources will be needed for auditors to verify compliance of CoC CHs, such as desk research prior to the audit and time during the audit (e.g. to interview workers, employers, and trade union representatives).

Impact on CBs

As described above CBs will need to ensure that auditors are trained to verify compliance with the new auditable social requirements, and that existing procedures and structures are adapted. Considering that there are over 31,000 FSC CoC certificates, this is likely to have a **significant cost impact** on the CBs' systems.

In particular, the cost impact will be very high for CBs that only offer CoC certification, not FM, as their auditors are not familiar with auditing against social requirements. It will be important to ensure that CBs have enough time to adapt their systems, and to ensure that sufficient numbers of trained auditors are available.

CBs are also likely to face higher costs to maintain their certification systems. This could be particularly relevant in case of disputes about CHs compliance with new auditable social requirements due to conflicts with national law, as CBs are expected to investigate and facilitate resolution of these conflicts.

Impact on ASI

ASI, FSC's accreditation body, will need to witness whether CBs are correctly auditing and certifying against new, or changed, social requirements. This will be a significant addition in the case of CoC witness audits, and ASI will need to ensure that CoC assessors are trained accordingly.

Impact on NPs

Due to the anticipated limited impact on FM CHs, the impact on NPs would mainly stem from the introduction of new requirements to CoC certification. NPs are likely to require **time and resources** to support CoC CHs compliance in the national context (e.g. by responding to enquiries). This could differ among NPs depending on how a risk-based approach is implemented. In the case of disputes, where national law conflicts with FSC requirements for instance, NPs or standard development groups may also need to support the investigation process by the CB. If CHs choose to terminate their FSC certification because of the additional administrative and financial burden, NPs **income could decrease**.

However, the new requirements may **strengthen NPs relationships** with national social and environmental members, which could lead to more support and promotion of the system.

Impact on FSC International Center

The FSC International Center will be required to develop auditable social requirements and to incorporate them in the FSC normative documents. Once established, they need to be maintained according to the existing procedures for review and revision of normative documents. This will require **additional resources**, mainly for the CoC programme. The FSC International Center will also need to develop training and guidance material to support FSC staff and CBs in adapting their systems and to improve the capacity of standard development groups.

If national standards need to be adapted based on revised auditable social requirements, the cost impact to support standard development groups would need to be considered.

Disputes emerging from issues around ILO Core Conventions principles are handled by the FSC Quality Assurance Unit if they relate to the *Policy for Association* or are escalated to FSC. With the implementation of auditable social requirements, **dispute cases may reduce in the long-term** due to the increased clarity and understanding of CHs about their social obligations, as well as FSC members, and so disputes and grievances may be handled at an earlier stage. In the short to medium-term however, more disputes may need to be handled by FSC, depending on how quickly CHs comply with new or changed requirements.

FSC's **integrity will be strengthened** with the introduction of auditable social requirements across all CHs, and FSC will be able to position itself as a voluntary certification scheme that makes a difference to the entire forest product supply chain, including workers, not only at FM level. The relationship with social FSC members would likely be strengthened, if auditable social requirements are in place for all FSC CHs. The relationship with economic FSC members would depend on how the auditable social requirements are introduced and verified at CoC CH level.

If FSC approves an approach that is feasible for CHs, while also providing adequate protection of workers in the supply chain, then FSC's system is likely to be **strengthened overall**.

V. Alignment with the *FSC Global Strategic Plan 2015-2020*

Critical result area 1.1 of the *FSC Global Strategic Plan 2015-2020* outlines the expectation 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'.

If a harmonised approach is taken to introduce auditable social requirements for all FSC CHs then this **could be seen as a simplification** of the normative framework, as a consistent approach is applied.

However, the additional requirements will more likely be seen as **adding complexity and costs**, mainly for CoC CHs. The effect on the FSC certification system will depend on whether FSC as a whole continues to attract applicants and CHs. This will need to be investigated based on a concrete proposal of how the generic criteria and indicators are translated into auditable social requirements.

The normative framework as such will **not be stabilized** since a number of normative documents will need to be amended.

The effect on the **credibility and integrity** of the FSC certification system should be positive, improving the social impacts of the FSC system rather than only maintaining it.

Critical result area 1.4 outlines that FSC should develop new tools 'to empower people and uphold and respect the rights of those that depend most substantially on forests, including Indigenous Peoples, smallholders, forest-based communities, women and workers in forestry industry'.

The introduction of auditable social requirements for all FSC CHs will strengthen the rights of forestry workers throughout the supply chain and should, therefore, lead to positive impacts. Engagement with workers and employers organizations is expected to increase during the internal and external audits. Empowered workers are likely to have positive impacts on the production level.

Auditable social requirements will be a new tool for the majority of CHs, which is likely to impact on the productivity, effectiveness, and efficiency of business practices. Industry harmony is expected to be enhanced, where social dialogue and negotiation in good faith is encouraged among bilateral partners, the impact of which will spill to forest communities.

VI. Risk of not implementing auditable social requirements

The ILO Core Conventions principles regarding protection and empowerment of communities, workers, and women (among others) are also the core values of FSC. Not implementing auditable social requirements for all FSC CHs would result in a **significant reputational risk** for FSC, impacting the credibility of the FSC system.

As explained above, there is a clear expectation that FSC takes a holistic approach to protection of workers' rights in FSC standards, which has been supported by the FSC International Board of Directors. Non-implementation of this approach could lead to disengagement or withdrawal of various chamber constituents, mainly, but not limited to, FSC social chamber members.

VII. Alternative policy options to deliver on the issue

One alternative to developing auditable social requirements would be to request implementation of standards of other voluntary standards setting schemes that have also integrated the ILO Core Conventions principles in their standards, e.g. SA 8000 of Social Accountability International. This would have a significant cost impact on all CHs, including FM CHs, since requirements cover a much wider scope than ILO Core Conventions principles (e.g. including working hours and remuneration). Also, FSC could not amend these requirements to apply them in the forestry context, and it would require all CHs to obtain certification by an additional certification scheme. This approach, even if theoretically possible, is not favourable for FSC.

Annex

List of references:

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6. Poschen, P. (2000): Social Criteria and Indicators for Sustainable Forest Management. A Guide to ILO Texts. GTZ, Eschborn

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