



# FRAMEWORK for Regional Studies<sup>1</sup> of Cross-site Credit Systems

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## Introduction

Since the introduction of the FSC credit system as an option under the FSC Chain of Custody standard (FSC-STD-40-004), FSC could spot interest from industry for applying a credit system across a number of Chain of Custody operations or operational sites, i.e. exchanging FSC credit between sites without physically transferring material. At the same time, the subject has been critically rated by non-governmental organizations that fear any move towards the direction of shared credits would open up the arena for a virtual credit trading model which would have uncontrollable impacts on FSC supply streams.

The subject and its potential benefits and implications was briefly discussed in the FSC discussion paper “PSU-DIS-40-004: Proposed changes to the FSC group chain of custody and multiple site chain of custody policies”, December 2004, but as the focus of the paper was on other issues to be introduced in FSC multi-site and group policies no further follow-up actions were taken at that time.

The issue was again presented in “FSC-DIS-01-013: Review and Revision of the FSC Chain of Custody standard”, March 2006, with the objective of obtaining broader stakeholder input on this and a number of other subjects in order to support the Technical Working Group in the process of preparing a revised version of FSC-STD-40-004. At their subsequent meeting the Working Group discussed a number of options and potential restrictions but could not agree on a way forward. Consequently, the further exploration of the subject was re-delegated to the FSC International Center and is now planned to be carried out through regional studies, coordinated by FSC National Initiatives.

## 1 Framework objective

The objective of this document is to provide a comprehensive and consistent framework for the research, testing, analysis and evaluation of models and methodologies for cross-site credit systems. While FSC International will not design, manage or implement such studies. it will provide technical assistance in order to ensure policy consistency and adherence to this framework.

Conclusions and developed solutions following activities under this framework shall aim at providing factual grounds and clear cost-benefit analyses in order to allow an informed decision by the FSC Board of Directors and FSC membership about any recommended major system changes. Such system changes would have to be both, viable and credible, to ensure their international applicability while not compromising general Chain of Custody objectives (see ANNEX).

<sup>1</sup> The term “study” is used as substitute for the range of potential research and analytical activities carried out through feasibility studies, field trials or pilot tests.

## 2 Contents – issues to address

Studies that research, test, analyse and evaluate potential models and methodologies for cross-site credit systems at a regional or national scale need to be clearly and consistently defined in order to produce results and recommendations that can form the basis of system changes or amendments at the international level.

The key issues to address (i.e. define, research, and/or analyse) in this context are the following:

### 2.1 Geographic scope

- 2.1.1 The study shall clearly define the geographical boundaries within which research, testing, analysis and evaluation will be conducted.
- 2.1.2 Recommendations and evaluations shall specify any geographic limitations within which cross-site credit systems are deemed acceptable.
- 2.1.3 Unique or geographically typical industry and supply chain characteristics shall be described and conclusions that cannot be easily transferred to other industry situations highlighted.

### 2.2 Representativeness

- 2.2.1 The study shall ensure that investigated models and methodologies are representative and relevant for the industry prevalent within the defined geographic scope.

### 2.3 Interferences with Chain of Custody objectives (see ANNEX)

- 2.3.1 The study shall identify and evaluate any impairment of Chain of Custody objectives arising from the application of investigated cross-site credit systems.
- 2.3.2 The study shall identify existing and potentially arising conflicts between individual Chain of Custody objectives for the models and scenarios investigated.
- 2.3.3 Conflicts between Chain of Custody objectives and other corporate environmental or social targets should be identified for both the status quo as well as the investigated cross-site scenario.

### 2.4 Impact on forest supply streams

- 2.4.1 The study shall assess actual and potential impacts on forest supply streams caused by the application of investigated cross-site credit systems.
- 2.4.2 Impact assessments shall particularly consider to what extent smallholder forest operations and other logistically disadvantaged suppliers would be affected.

### 2.5 Identification of contentious issues

- 2.5.1 The study shall identify any contentious issues stakeholders have with the application of cross-site credit systems.

### **3 Implementation – how to proceed**

#### **3.1 Statement of objectives**

- 3.1.1 Study proposals and/or terms of reference shall specify the aims and objectives of the study.
- 3.1.2 Studies that propose the issue of a certificate and use of the FSC logo on products according to a new draft FSC standard shall, in addition to the criteria stipulated by this framework, follow the procedure laid down in “FSC-POL-01-001 (2004): FSC Policy for Pilot Tests of Draft FSC Standards”.

#### **3.2 Collaboration with FSC International**

- 3.2.1 The project manager shall inform FSC International about planned studies in order to allow for the coordination of such activities in neighbouring countries and for similar industry scenarios.
- 3.2.2 The project manager shall share the project plan and other relevant documentation with FSC International and shall provide regular updates about the study’s progress.
- 3.2.3 The project manager shall seek guidance from FSC International in case of complex technical issues or conflicts with stakeholder groups.

#### **3.3 Engagement of stakeholders**

- 3.3.1 The study shall be publicly announced in a manner sufficient to ensure that stakeholders are notified about its commencement and scope.
- 3.3.2 Stakeholder interests shall be identified that should be represented in the evaluation of the study.
- 3.3.3 Organizations and individuals that are known to represent such stakeholder interests within the geographic scope of the study shall be contacted and invited to participate in the evaluation of the study.
- 3.3.4 The study should involve the relevant FSC National Initiative, if applicable, and make use of their role in engaging identified stakeholders.
- 3.3.5 The study should strive for the ‘largest common denominator’ that can be reached as consensus between the participating stakeholder interests.

#### **3.4 Field tests**

- 3.4.1 The study shall investigate realistic industry scenarios at the example of at least two independent organizations within the supply chain.
- 3.4.2 The study shall consider requirements for certification bodies to verify investigated models and methodologies and should seek the active involvement of auditors.

## **4 Deliverables – what to present**

### **4.1 Recommendations for FSC International**

- 4.1.1 The study shall result in clear recommendations for FSC International whether and how to address cross-site credit systems through changes or amendments to the Chain of Custody and Labelling policy framework.
- 4.1.2 Recommendations shall consider the impacts of any proposed policy changes on the international policy framework and individual FSC standards, and shall be applicable at a global scale.
- 4.1.3 Proposals for policy changes or developments shall aim at maintaining current FSC Chain of Custody objectives while minimizing conflict of objectives with other corporate environmental or social targets.
- 4.1.4 Proposals for policy changes or developments should be congruent with basic Chain of Custody concepts and approaches (e.g. multi-site certification, product groups) and shall clearly specify the relevant trading entity (e.g. site, operation, certificate holder) and, correspondingly, the limits within which any suggested cross-site credit system could be applied.

### **4.2 Identification of benefits and weaknesses, opportunities and risks**

- 4.2.1 The study shall aim at identifying the benefits and weaknesses as well as any major opportunities and risks associated with both, the status quo as well as the application of cross-site credit systems.
- 4.2.2 The analysis of benefits and weaknesses, opportunities and risks shall be provided separately for the following levels where effects are to be expected:
  - ▶ FSC as an organization and certification scheme (system level – key issues are credibility, integrity, consistency, and applicability)
  - ▶ Supply chain impacts (market level – key issues are volume of certified products, certified forest area, participation of smallholder forest operations)
  - ▶ Certificate holder control systems (certificate level – key issues are critical control points, material traceability)

## **ANNEX: General Chain of Custody objectives**

The FSC Chain of Custody system serves to reach a number of general objectives and, through its application, achieve specific results. While the principal objective for a certified product is to allow a statement on its material origin, i.e. its traceability, aspects of product integrity have become more important with the growing complexity of messages that an FSC label potentially carries.

At the system level, application of Chain of Custody standards aims primarily at allowing certified (input) material to be transferred into certified (output) products, thereby avoiding the creation of bottlenecks and discrepancies that cause systemic "leakage" of certified material. Through certain inbuilt incentives it is further targeted to facilitate increased use of certified (input) material, thereby stimulating more forest area to become FSC-certified while at the same time allowing all types of operations to participate in and benefit from FSC certification.

### **PRODUCT LEVEL OBJECTIVES**

These are objectives to be achieved at the level of the individual FSC-certified product. Failure to achieve these objectives may indicate that the system is not effectively implemented and can ultimately compromise system integrity.

#### **I Material traceability**

Aims at allowing statements about the origin of all forest-based material. There are several aspects or layers of material traceability:

- ▶ Site-specific: traceability from given output to material input (within operations)
- ▶ Transaction-specific: traceability between supplier and customer (between operations)
- ▶ Chain-specific: traceability from material input to forest(s) of origin (across operations)

#### **II Product integrity**

Aims at ensuring customer satisfaction and consumer acceptance. Two main aspects in terms of:

- ▶ Product composition (minimum content or statistical equivalent of certified material / avoidance of controversial sources)
- ▶ Truthfulness / correctness of FSC claims ('truth in labelling')

## SYSTEM LEVEL OBJECTIVES

These are targets aimed for by the application of the FSC Chain of Custody policy framework as a whole. Failure to achieve these objectives may indicate a lack of market orientation as well as overall applicability and may, in the long term, lead to reduced market penetration.

### III Market penetration

Aims at facilitation of (increased) product flow from the forest to the shelves which can be differentiated as follows:

- ▶ Facilitation of material flow within operations (avoidance of bottlenecks at site-level)
- ▶ Facilitation of product flow between operations (feasibility for all relevant operations and forest industry sectors)
- ▶ Congruence with other industry systems and general approaches

Various sub-targets are interlinked:

- ▶ Optimized outreach / maximized label placement
- ↓
- ▶ Increased market uptake (market 'push')
- ↓
- ▶ Increased material demand (market 'pull')
- ↓
- ▶ Increased FSC-certified forest area /  
increased use of material from existing certified area

### IV Equitable access

Aims at allowing all operations both at forest level and within the supply chain to participate in and benefit from the FSC certification scheme.

- ▶ Participation of smallholders (forest level)
- ▶ Participation of small enterprises (supply chain)

### V Industry conformance

Aims at being congruent with prevalent industry standards and systems to ensure smooth integration into organizations' procedures and strategies

- ▶ Congruence with other industry systems and general approaches
- ▶ Compatibility with corporate social responsibility frameworks and environmental targets