

DEVELOPING MECHANISMS TO ADDRESS INTEGRITY RISKS IN FSC- CERTIFIED SUPPLY CHAINS

CoC Revision Workshops

4 October 2023

Chain of Custody & Controlled Wood Team

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AGENDA

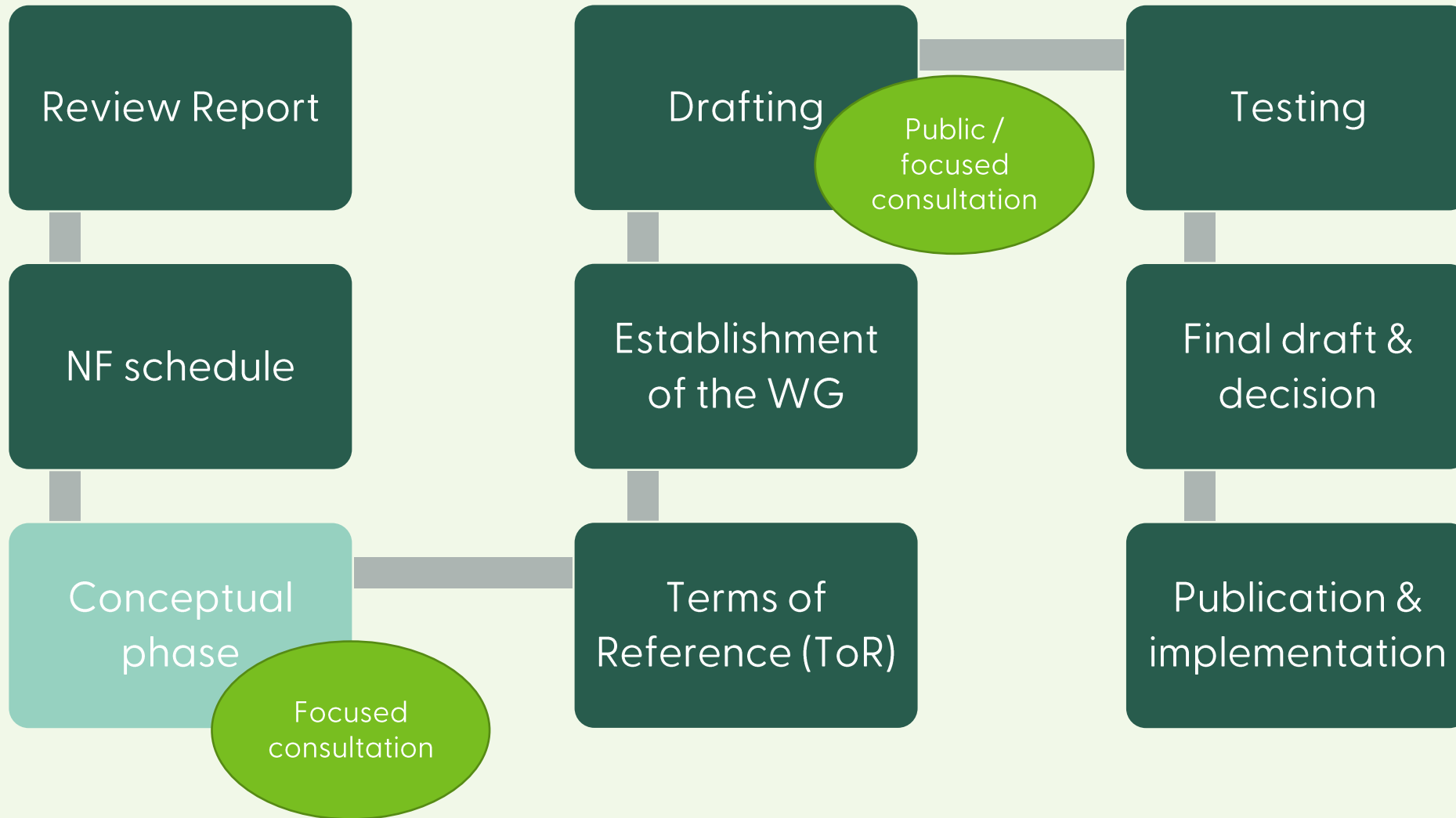
- 1 Where are we with the CoC revision?
- 2 To whom does FSC CoC certification apply?
- 3 Update on ADVICE-40-004-18
- 4 How can FSC ensure supply chain integrity?
- 5 We want to hear from you!
- 6 What's next?

Where are we with the revision?



FSC-certified forest in Durango, Mexico

Simplified revision process flow



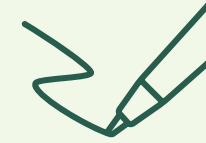
Two distinct phases:



Conceptual

- High level feedback
- Allows for informal settings
- Opportunity to find new stakeholder groups
- Includes prospective audiences
- Focus on simplicity in questions and information

Establishing working group
Finalizing ToR



Drafting

- Detailed feedback
- Focus on more technical and committed audiences
- Connect results and outcomes from conceptual phase to the document and requirements

Timeline



What we will be doing?



What's being revised

FSC-STD-40-004
*Chain of Custody
Certification*

FSC-STD-40-007
Sourcing
Reclaimed
Material

FSC-STD-40-003
Chain of Custody
for Multiple Sites

FSC-STD-20-011
*Chain of Custody
Evaluation*

FSC-PRO-40-003
Development of
National Group
Chain of Custody
Eligibility Criteria

Motions to be addressed

MOTION 28

Overcome Value Chain Barriers for small operations by remedying identified problems in the CoC procedures, thereby increasing participation.

MOTION 50

Policy Motion on the right of access to workers

MOTION 51

Policy Motion on the right of workers to elect their own Occupational Health and Safety representative(s).

MOTION 55

Increase system transparency regarding organizations and products certified through Chain of Custody certification.

Examples of topics to be addressed

FSC-STD-40-003
FSC-PRO-40-003

- Alignment with 40-004
- Changes to the group eligibility criteria
- GDP, PPP, Global Competitiveness Index

FSC-STD-40-004
FSC-STD-20-011

- Incorporating outcomes of pilot projects
- Moving away from the “traditional” normative document
- Incorporating existing Advice Notes and Interpretations
- Clarity on requirements for outsourcing activities & contractors
- Expanding claim types
- Remote and hybrid evaluations
- **Developing Mechanisms to Address Integrity Risks in FSC Certified Supply Chains**

FSC-STD-40-007

- Incorporating circularity concepts
- Include certain co-products categories
- Treatment of salvaged wood and trees harvested in urban areas

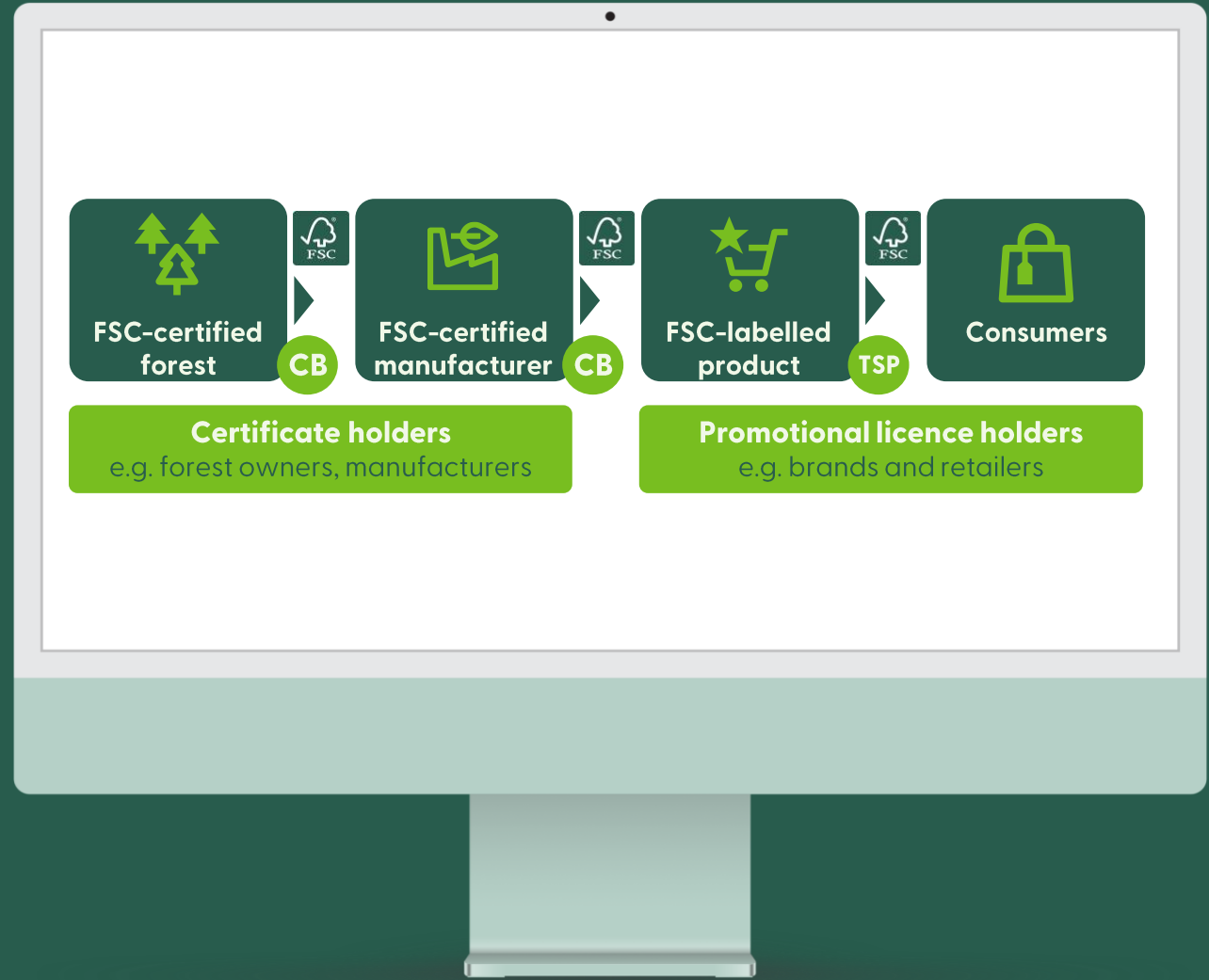
SCOPE OF FSC COC CERTIFICATION

To whom does FSC CoC certification apply?

Who needs CoC certification?

Those who:

- 1 Sell**
FSC-certified products with FSC claims on sales documents
- 2 Label**
products as FSC certified
- 3 Manufacture or change**
the composition or physical integrity of products sold with FSC claims
- 4 Promote**
FSC-certified products, except finished and FSC-labelled products (PLH)



**FSC claims are required in cases where subsequent customers want to use the FSC-certified products as input for the manufacturing of other certified products and/or for resale as FSC-certified.*

Who does not need CoC certification?

Organizations providing services

No legal ownership of certified products



- 1 Agents and auction houses**
Arrange the trade of certified products between buyer and seller
- 2 Logistics services, transporting, temporarily storing, warehousing**
Not changing products' composition or physical integrity.
- 3 Contractors**
Operating under an outsourcing agreement in accordance with Section 13 of the FSC-STD-40-004

Assembling companies



The organization whose sources are from different CoC-certified (or non-certified) suppliers/manufacturers.



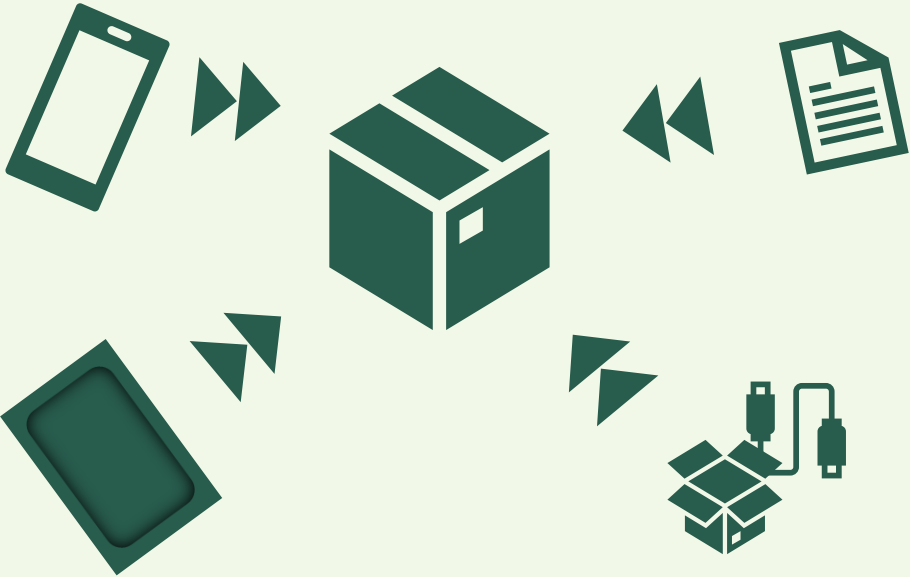
Integrity risks for FSC

- Risk of mixing with non-eligible inputs
- Labelled wrapping/packaging being used for other non-FSC product;
- Public perception towards non-verification of the FSC principles (CLR, H&S,...)

Examples

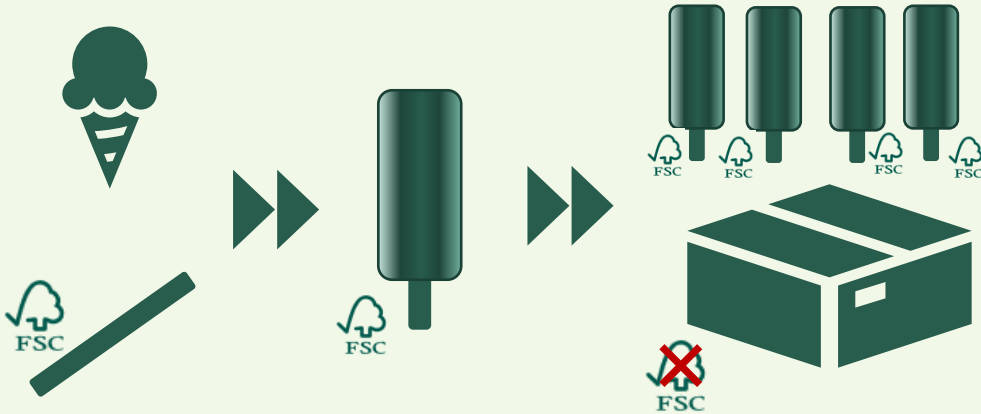
Example 1

Smartphone packaging comprises a cardboard sleeve, top cover, pulp molded tray, accessories box, and bottom cover from different CoC-certified (or non-certified) suppliers/manufacturers.



Example 2

Ice cream packaging comprises FSC-certified ice cream wooden sticks and non-FSC-certified packaging.





If a retailer sources the components and then outsources the service to an assembler. Isn't that the same risk?



Neutral material

Material that comes from outside a forest matrix
(i.e. non-forest-based material)

Neutral Material
(fabric, foam, metal components)

Forest-based material
(wooden frame)



Potential misleading claims on FSC products containing neutral material



30% Natural rubber (FSC)
70% Synthetic rubber and metal (Neutral)



20% Viscose (FSC)
80% cotton (Neutral)

Products containing neutral materials that cannot be distinguished from FSC-certified ingredients raised the risk of misleading claims.

ADVICE-40-004-15



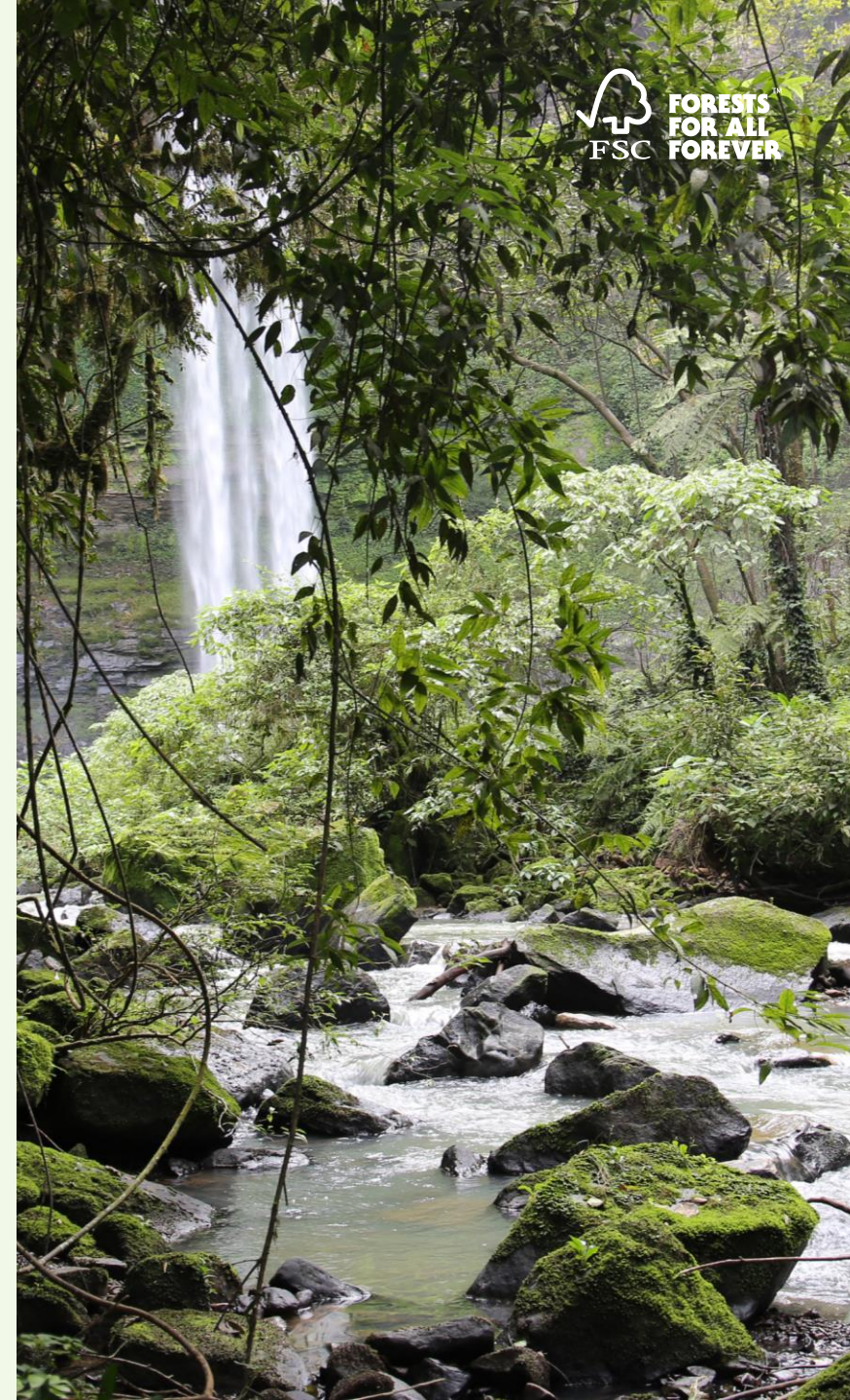
The Advice Note

- Products containing neutral materials that cannot be distinguished from FSC-certified ingredients shall only be labelled and claimed as FSC Mix.

(suspended)

- Feedback of the Advice Note raised concerns about the Negative impacts of the requirement (the specification of the certified ingredient(s) on the FSC label).

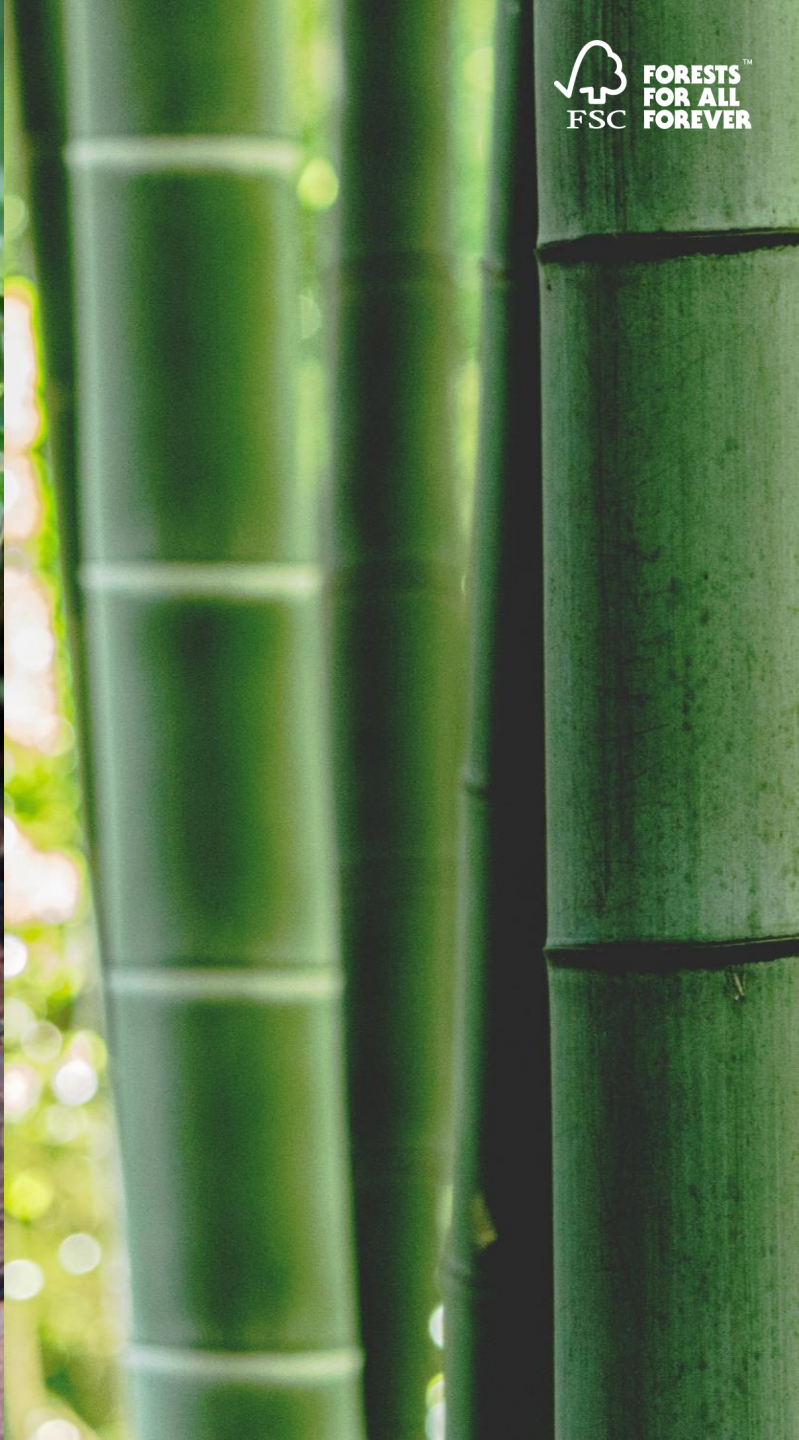
NOTE: This Advice Note does not apply to inorganic materials that have a different function in the product in relation to the certified ingredient, or products where the FSC-certified ingredient is distinguishable from other ingredients



Potential solutions



- ❑ A disclaimer on sales documents stating the % of the forest-based components in the product
- ❑ Clarification text next to the logo (when applicable)



FALSE CLAIMS

Changes to Advice Note 18 (future V3-0)

Introduction of **2 separate Advice Notes** to address 2 scenarios:

ADV-40-004-18 V2-0

Addressing false FSC claims on products/projects containing material from unacceptable sources



ADV-40-004-18a

Deliberate false or inaccurate claims



ADV-40-004-18b

Unintended use of uncontrolled material resulting in false claim

Terminology Changes

Other False
Claim



Non-negligent
False Claim

Changed to address
legal connotations

Fraudulent
Claim



Fake Claim

Changed to make
clearer distinction

Grossly
Negligent
False Claim



Definition for repeated instances of negligent claims.
Removed because added confusion.

Uncontrolled
Material



New definition added of 'Uncontrolled Material':
Material which has not been assessed to be in conformity with the requirements of <FSC-STD-40-005 V3-1 Requirements for Sourcing FSC Controlled Wood> or has lost its status as controlled or certified material after having been passed on through a non-certified supplier



Scope Changes

'Organization'

Clarification in Scope to include all types, including FM CHs and certificate applicants and former certificate holders

Limited Applicability

Applying at site/member level, and only at Central Office level if failure is at overall Group/Multi-site level



Other key changes

'General Principles'

New Section added for both Advice Notes; only section, no new content

Determination of (non-) negligence

CB to classify 'false claim' based on:

- *Evidence*
- *Root Cause Analysis (by CH)*

But the classification of false claims as 'deliberate' (fake) remains with FSC/ASI

Timeline for Contesting Blockage

Time to provide evidence to contest 'blocked' status:

- *Possible extension of 4 weeks*



Diligent Organizations

Relevant consequences not faced when:

- Demonstratable exertion of reasonable care
→ False claims considered 'non-negligent'
- Self-detected & self-declared 'negligent' false claims
- Repeated instances of a false claim for the same reasons (root cause) are not aggravating the situation

Serious consequences only if:

- Repeated (min. 3) but unrelated instances of a false claim within a limited time period (5 years)

Limited consequences:

- Consequences are limited to individual group / multi-site members which made the false claim (unless there is a failure at the central office level).

'Materiality Factor' introduced to:

- Ensure minor accidental admixtures of uncontrolled material would not result in higher amounts of a compensation fee.



**What is currently in
place at FSC to ensure
supply chain integrity?**

Standard procedural and normative tools in place for ensuring supply chain integrity

FSC goes beyond certificate holders and

- Evaluates **applicants** via FSC Check
- Applies **Policy for Association** that covers **not only CHs** but whole corporate groups
- New version of PfA introduced a wider scope of unacceptable activities for COC CHs

Certification bodies

- Requirements for conducting CoC audits in FSC-STD-20-011
- Conducting annual surveillance audits
- Following-up on non-conformities

ASI – Assurance Services International

- Conducting annual surveillance assessments of CBs
- Following-up on non-conformities for CBs
- Conducting investigations, including transaction verifications

FSC supply chain / FSC certificate holders



- Rules for diligent operation of the supply chain in FSC-STD-40-004

Stakeholders

- Can monitor the situation and the system considers their input and participation

Additional interventions to ensure supply chain integrity and prevent deliberate wrongdoings

FSC initiates and conducts investigations

Together with ASI, CBs, other partners

Examples:

- transaction verification
- wood ID (isotope tests of wood samples)
- forest inventory fraud investigations
- incident investigations

Proposes changes to normative documents

Examples:

- ADVICE-40-004-18 on false claims
- ADVICE-40-004-20 on risky species (former Advice Note on Paulownia)
- ADVICE-20-011-13 on applying DDS to FSC applicants producing charcoal in Ukraine

Distances wrongdoers from FSC certification

As of 26.09.2023

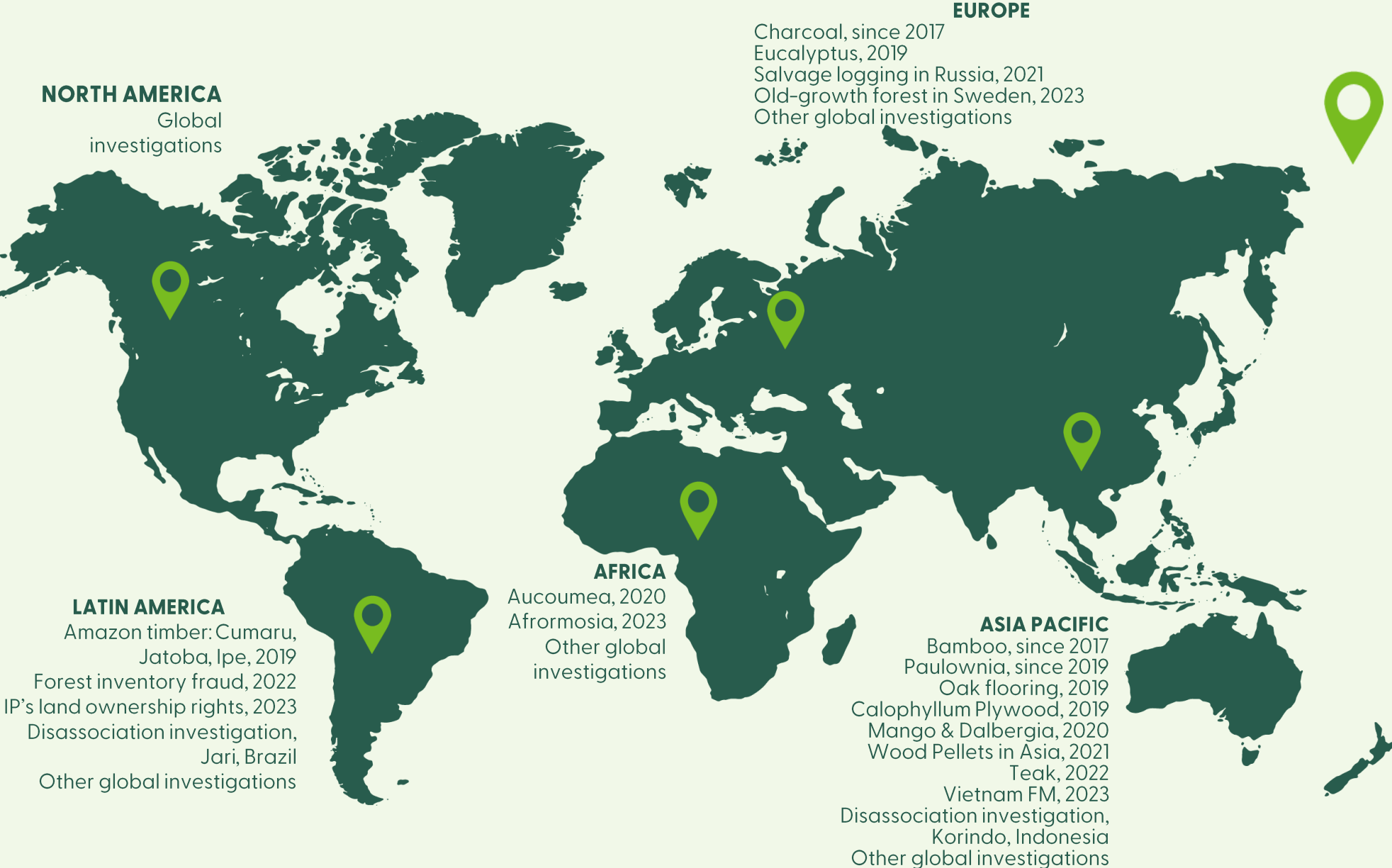
79 organizations are blocked from FSC


6 organizations are disassociated

Develops innovative and tech tools


- Develops blockchain for tracking online real-time transactions
- Investigates application of Wood ID technologies
- Considers application of analysis of historical data on certificate holders and identification of patterns of forced terminations

Targeted integrity investigations for the past 6 years



 More than 16 large scale investigations were conducted globally together with ASI

4 Policy for Association cases investigated



The increased transparency on certificate holders and access to information by stakeholders is expected to enable better oversight by CB auditors, ASI assessors, FSC, and stakeholders, and will better inform CH's decisions about their business partners.

1. Collect GPS coordinates of COC CHs' main offices and sites



Rationale

- Clarity of identification of a CH, especially for cases when transliteration is used for writing a CH's name in Latin alphabet
- Graphical representation of CHs registered in the same location



Issue

Deliberate manipulation with transliteration of names, not disclosing information to CBs about former certification or blockages.

2. Make “no sales” cases visible in the Public Search

Rationale

FSC observes that some not-diligent CHs deliberately report no FSC sales to their CBs to waive an audit or to indicate that no full-scale audit is needed, yet meanwhile sell products with FSC claims.



Goal

Considering that it can be a legitimate business situation, transparency on “no sales” will better inform CHs about their suppliers and improve their due diligence

3. Identify species in certification scope (and in annual volume summaries available for CBs only)

Rationale

A few years ago, Paulownia's investigation showed that there was not enough FM certified Paulownia harvested, but a lot was available on the market. FSC is aware of other risky species (ADVICE-40-004-20).



Goal

improve information of CHs about FSC activity of their suppliers thus strengthening their due diligence; improve oversight by CBs and FSC of traded species and associated certifications

Waiving of audits



- If a company does not have any FSC-activity, it can waive a surveillance audit (but not more than 2 consecutive audits) - FSC-STD-20-011, clause 3.3.
- However, waiving audits might be used by fraudulent companies to introduce false claims.
- It has been observed by ASI, CBs and during TV loop investigations.
- An option to forbid the waiving of audits in case of zero sales is suggested by a variety of stakeholders.

Wood ID

- ❑ Trading in timber is big business. Many companies do it responsibly and according to the law. However, there are some that cut down trees indiscriminately – and even illegally.
- ❑ FSC is developing its Wood Identification (Wood ID) programme which will enable FSC to check a product sample taken from an FSC supply chain against a reference sample from the declared origin.
- ❑ FSC works together with its partners to have a vast reference dataset as well as to ensure the solid scientific reliance of these tests and ability to cover the actual cost of testing.
- ❑ As part of the wider development of the programme, FSC needs to determine **financial model to cover the cost of supply chain samples.**



Risk calculation model

- There might be a shared public concern or a proven indication that some **products, species,** or **countries** can be associated with a certain integrity risk for FSC supply chains. Besides other actions, FSC works to understand if there is a way to predict a violation of FSC requirements.
- FSC looks into historical data of CHs and tries to analyse if there are patterns among companies that were forcibly terminated in the FSC system. For this, FSC tests statistical analysis and calculation models of artificial intelligence.
- The results of risk calculation might lead to a different set of requirements for CHs and CBs.



For reflection

Any general comments about this approach?



What can FSC do to ensure integrity while keeping any extra requirements manageable for certificate holders?

**We want to hear
from you!**



What's next?

Stay Engaged

1

Visit the Process Page for FSC-STD-40-004 & FSC-STD-20-011

2

Register via the Interested Stakeholders Form for Participation in this Revision Process

3

Synopsis report including the summary of discussions and the presentation will be shared

4

Consultation on conceptual phase in Q2 2024

Contact us: chainofcustody@fsc.org

Thank you



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