Opportunities and Challenges of Chain-of-Custody Certification

Kathryn Fernholz
2011
Overview

- What is Chain-of-Custody Certification?
- Chain-of-Custody and Certification Trends
- Assessing CoC for your Company and the Potential Benefits
- Costs and Group Chain-of-Custody
- Primary Chain-of-Custody Components (FSC & SFI)
  - Documentation of Procedures & Handling Systems
  - Control Systems (Transfer, Percentage, Volume Credit)
  - Controlled Wood Risk Assessment/Controversial Sources
- Bottom Line – 3 Things to Control your chain-of-custody experience
What is Chain-of-Custody Certification?
The 2 Parts of Forest Certification

**Forest Management (FM) Certification**: A procedure to assess the quality of forest management in relation to the criteria of a forest management standard.

**Chain-of-Custody (CoC) Certification**: The process by which the source of a forest product is verified. The certified timber or raw material is tracked, traced and identified from the forest through all the steps of the production process until it reaches the end user.
Chain-of-Custody Certification

Manufacturer/Distributor, etc.

Responsible for ensuring that certification requirements are met during all stages of production, distribution and sale - including appropriate inventory practices, source verification, and product labeling.
Chain-of-Custody Certification

(Certification is a five-year contract that includes annual surveillance audits)

1. Apply to accredited certifier or distribute a request-for-proposals to generate bids
2. Select Accredited Certifier as contractor
3. Prepare for Audit
   - Complete risk assessment
   - Develop control systems
   - Training
4. Schedule assessment with assigned auditor
5. Auditor from the accredited certifier visits the Chain-of-Custody applicant and conducts the assessment
6. Certifier produces certification report
7. Report finalized and the Certifier makes certification decision
8. Applicant decides whether or not to adopt the findings of the certification decision and enter into a certification contract or to pursue the recommended actions identified in the report
CoC

Chain of Custody certification is required for organizations that have legal ownership of certified products and perform one or more of the following activities:

a) Pass on the certified claim to subsequent customers through sales and delivery documents;
b) Apply the certification label on-product;
c) Process or transform certified products (e.g. manufacturing, repackaging, relabeling, adding other forest-based components to the product).
Chain-of-Custody Trends
UNECE/FAO Forest Products Annual Market Review, 2010-2011
UNECE/FAO Forest Products Annual Market Review, 2010-2011
<table>
<thead>
<tr>
<th>Region</th>
<th>Total forest area (million ha)</th>
<th>Certified forest area (million ha)</th>
<th>Certified forest area (%)</th>
<th>Estimated volume of industrial roundwood from certified forest (million m³)</th>
<th>Estimated proportion of global roundwood production from certified forests (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>614.2</td>
<td>201.0</td>
<td>32.7</td>
<td>201.0</td>
<td>11.3</td>
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<td>Western Europe</td>
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<td>85.3</td>
<td>50.8</td>
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<td>CIS</td>
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<td>44.3</td>
<td>5.3</td>
<td>8.5</td>
<td>0.5</td>
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<td>Oceania</td>
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<td>12.3</td>
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<td>Africa</td>
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<td>0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Latin America</td>
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<td>16.1</td>
<td>1.7</td>
<td>3.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Asia</td>
<td>592.5</td>
<td>8.1</td>
<td>1.4</td>
<td>2.8</td>
<td>0.2</td>
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<tr>
<td>World total</td>
<td>4,033.1</td>
<td>374.9</td>
<td>9.3</td>
<td>447.3</td>
<td>25.3</td>
</tr>
</tbody>
</table>

**UNECE/FAO Forest Products Annual Market Review, 2010-2011**
Assessing CoC for your company and the potential benefits
Know WHY you’re engaging in certification or considering it

• Internal & external reasons
• Current & potential customer interests
• Personal & business outcomes
• Direct & indirect benefits
#1 Strategy for maximizing the benefits of certification:

Treat certification like it is a new product
Costs and Group Chain-of-Custody
Costs

• $1,000 to $10,000+ for the initial assessment
• $500 to $5,000+ for the annual surveillance audit

• Ballpark for average sized companies:
  • $2,500 – $5,000 for the initial assessment and
  • about 33-50% of that cost per year
**Group CoC**

**Standard Setting Body**

**Accredited Certification Body or Auditor**

**Group Organization/Manager**

Responsible for ensuring that group members meet certification requirements; establishes and enforces rules for admission and resignation; establishes systems for monitoring compliance.

**Membership Participation Agreement Form**

**Group Members**

Manufacturers/Distributers, etc.

Responsible for ensuring that certification requirements are met during all stages of production, distribution and sale - including appropriate inventory practices, source verification, and product labeling.

Commit to meeting the membership and certification requirements; respond to information requests.
DISCOUNTED FSC (CoC) PROGRAM

Average Rate:
$900 - $2,000 plus internal audit
Rate Includes Annual Group Audit Fee

Assistance With:
✓ All required paperwork
✓ Preparation for annual audit
✓ Annual educational requirements

Contact:
Wood Products Manufacturers Association
Philip A. Bibeau – Executive Director
PO Box 761
Westminster, MA 01473-0761
978/874-5445 :: 978/874-9946 FAX
www.wpma.org

http://www.wpma.org/DiscountFSC.asp
Primary Chain-of-Custody Components (FSC & SFI)
Documentation of Procedures & Handling Systems

• Purchasing & Receiving
  • How material is specified,
  • verifying supplier certificates,
  • verifying shipment documentation,
  • handling and recording
• Production
  • Definition of Production Batch/Project Group(s)
  • Control System (also called a “Claim System”)
• Sales & Shipping (invoices, shipping documentation)
• Logo/Trademark Use in Marketing Promotions (Approval process)
• Training
• Record keeping and record retention (5 years; summary data, supplier records)
• Controlled Wood Risk Assessment and Program (if applicable)
FSC CoC Control Systems

• Transfer
• Percentage
• Credit (or Volume Credit)
Transfer: The transfer system is appropriate for product groups that will include materials that all have associated FSC claims (i.e., all inputs are FSC-Pure, FSC-Mixed, FSC-Recycled or Controlled Wood). NOTE: The transfer system cannot be applied to material mixtures that include materials with neither FSC input nor post-consumer input.
Control Systems: Transfer

Scenario A: Material input with a single FSC claim

```
      "FSC 100%"
   ⬛⬛⬛⬜️
   ▶️ ◀️
```

The transfer system is particularly useful in cases where only a single material input is used as e.g. in the case of ‘FSC 100%’ product groups. In these cases the input claim is simply transferred to the output.

Scenario B: Inputs with different FSC claims

```
      "FSC Mix 70%"
      ⬛⬛⬜️⬜️
      ▶️ ◀️
```

In the second example a mixture of ‘FSC 100%’ and ‘FSC Mix 70%’ material input is used. In this case the material category with the lowest FSC input per input volume is ‘FSC Mix 70%’ which therefore can be transferred as applicable FSC claim for the output. This scenario is applicable for users who are either unable or do not want to calculate the exact FSC input to their production but only want to ensure a certain minimum FSC claim for their outputs.

Scenario C: Inputs with different FSC claims and without FSC claims

```
      [transfer system not applicable]
      ⬛⬛⬜️⬜️
      ▶️ ◀️
```

The transfer system cannot be applied as the material mixture contains material with no FSC input.
FSC CoC Control Systems

Credit: Under the credit system a proportion of the outputs can be sold corresponding to the quantity of FSC input and/or post-consumer inputs. FSC inputs and post-consumer inputs can also be accumulated as FSC credit on a credit account. The remainder of the output can be sold as ‘FSC Controlled Wood’.
Control Systems: Credit

Scenario C: Inputs with different FSC claims and without FSC claims

NOTE: The credit system could also be applied to scenario B, above.

The number of output units which can be sold with an ‘FSC Mix Credit’ claim is calculated as follows:

4 units with FSC input of 100%
8 units with FSC input of 70%
4 units without FSC input

\[
(4 \times 100\%) + (8 \times 70\%) = 4 + 5.6 = 9.6 \text{ units}
\]

The remainder of 6.4 units can be sold as ‘FSC Controlled Wood’.
Table 3: Example of volume credit accumulation (in tonnes)

<table>
<thead>
<tr>
<th>Number of 1 month’s production batch</th>
<th>Credit volume for the production batch</th>
<th>Credit account</th>
<th>Maximum credit account</th>
<th>Used credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>([3]<em>{t-1} \cdot [5]</em>{t} + [2]_{t})</td>
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<td>0</td>
<td>0</td>
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<tr>
<td>2</td>
<td>7.78</td>
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<td>7.78</td>
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<tr>
<td>3</td>
<td>8.17</td>
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<td>15.95</td>
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</tr>
<tr>
<td>4</td>
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<td>18</td>
<td>18.51</td>
<td>175.30</td>
<td>175.30</td>
<td>100</td>
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</tbody>
</table>

Table 4 - Example of draw down of the volume credit account for different product sales.

<table>
<thead>
<tr>
<th>Credit account balance (raw material credits)</th>
<th>Product</th>
<th>Input/output ratio</th>
<th>Volume of certified sales</th>
<th>Reduction to credit account balance</th>
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</thead>
<tbody>
<tr>
<td>200</td>
<td>A</td>
<td>1/1</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>180</td>
<td>B</td>
<td>4/1</td>
<td>40</td>
<td>160</td>
</tr>
<tr>
<td>20</td>
<td>C</td>
<td>2/1</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FSC Controlled Wood

Two Parts:

- Controlled Wood Risk Assessment
  - Evaluation procedure for investigating and reporting on the risk for all five areas and for all districts of origin
- Controlled Wood Program
  - Documented procedures for keeping the risk assessment current and to address areas of “unspecified risk”
FSC Controlled Wood

5 Categories of Risk

• Illegally harvested wood;
• Wood harvested in violation of traditional or civil rights;
• Wood harvested from forests in which high conservation values are threatened by management activities;
• Wood harvested from areas being converted from forests and other wooded ecosystems to plantations or non-forest uses; and
• Wood from forests in which genetically modified (GM) trees are planted.
## FSC registered Certificates

### Search Options
- **Certificate Holder:**
- **FSC Code:**
- **Product:**
- **Species:**
- **Country:**
- **Status:**

### FSC Code

<table>
<thead>
<tr>
<th>CB code</th>
<th>Category</th>
<th>CW</th>
<th>Number</th>
<th>Certificate Holder</th>
<th>Group Member / Multisite Participant</th>
<th>Country</th>
<th>Issue Date</th>
<th>Expiry Date</th>
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<tbody>
<tr>
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SFI Chain-of-Custody

- Documented Procedures
  - Identification at Delivery
  - Documentation at the point of sale or transfer
  - Management Responsibilities
  - Record Keeping (3 years)
  - Annual Internal Audits
  - Human Resources/Personnel (training)
  - Volume Credit Method (12 month cycle)
  - Process to avoid Controversial Sources (from outside U.S and Canada)
Preparing for the Audit

• Prepare, document and implement the Procedures and Handling Systems (except for the actual labeling of certified product)

• Set up and start running the Control System (Transfer/Percentage/Credit)

• Verify the certified status of suppliers

• Mock-up logo/trademark usage (on and off-product)

• If Applicable: Prepare the Controlled Wood Risk Assessment and Controlled Wood Program procedures (SFI: Controversial Sources)

• Document training event(s) (Get into the habit of using sign-in sheets!),

• Consider preparing a flowchart
3 Things to Control your CoC Experience
1. Get competitive bids
2. Do your homework to be prepared
3. Know that your auditor can **not** provide answers