

A Guide to Chain of Custody

naturally:wood®

British Columbia Forest Facts

APRIL 2013



PROMOTE YOUR SUPPORT FOR FOREST CERTIFICATION AND DEMONSTRATE THE INTEGRITY OF YOUR WOOD SUPPLY

Canada is a world leader in third-party sustainable forest management certification, making our forest products a preferred choice for customers around the world.

Increasingly, companies ranging from lumber producers to printers, are using certification to back up their claims that the raw materials in their products come from legal, responsible sources.

In the international marketplace, jurisdictions are increasingly specifying forest certification requirements, backed by Chain of Custody (CoC), in their green procurement policies ensuring they source legal and sustainable forest products. Recent examples include: Denmark, the United Kingdom, Netherlands, and Belgium.

Many countries (U.S., the European Union, Japan, and Australia) are implementing import controls to combat the global problem of illegal logging. As a result of the effective enforcement

of Canada's comprehensive legislative and regulatory framework, which provides regular scrutiny and audits of forest companies, the risk of illegal logging in Canada is negligible. While illegal logging is not an issue in Canada, our exports to these markets can be affected by these controls. CoC is one of the tools available to provide assurance of legality of supply.

Canada and the United States manage forests sustainably, ensuring they are there for future generations to be used for the many things that society values; including recreation, wildlife habitat, biodiversity, and forest products. All major forest certification programs in North America are recognized by companies and governments around the world.

This guide will help you develop a CoC management system that you can use for your entire wood supply, adding value through third-party verified claims that promote your product.





Benefits of having a certified chain of custody:

Improve market access by:

- Showing customers that your products represent a sound environmental choice.
- Being in the position to make certified, sustainable, recycled and legality claims.

Strengthen your business processes by:

- Creating a verifiable measure of the amount of certified, non-certified, and recycled material you are using.

Improve forest management globally by:

- Ensuring you are using raw materials from legal and responsible sources, whether the land is certified or not.

Minimize commercial risk by:

- Demonstrating good stewardship.
- Protecting your brand integrity.

The United Nations, UNECE/FAO *Forest Products Annual Market Review, 2009-2010* report said:

- Chain of custody (CoC) certification accelerated over the past year indicating strong trade interest in certification as a tool to demonstrate high environmental performance and to differentiate products in a depressed marketplace.
- The commitment of large publishers and other customers of the paper and packaging sectors has been the main factor driving growth in forest and CoC certification.
- Public-sector procurement policies, green building initiatives and legislation in the United States and European Union to prevent illegal logging are becoming more significant drivers of demand for certified forest products

Three forest based product certification exist in North America:

1. *Sustainable Forest Management (SFM)* – SFM certification is specific to the forest land base and illustrates through a set of indicators or criteria of sustainability, specific to a given standard, to ensure forests are well-managed.
2. *Certified Sourcing* – Specific to the Sustainable Forestry Initiative (SFI), the Certified Sourcing label does not make any claim about certified forest content. This label and claim can include fibre sourced in accordance with SFI's fibre sourcing requirements, pre- or post-consumer recycled content or from a certified forest, and fibre sourced from non-controversial sources (outside of the U.S. and Canada).
3. *Chain of Custody (CoC) Management System* – CoC certification links forest products from well-managed forests to the marketplace. It is used to track raw materials from their origin to the final product; to specify requirements that ensure wood from uncertified sources has been harvested legally and responsibly; and to measure the proportion of certified and/or recycled content in wood products. A label can be used to communicate these characteristics to consumers.

Independent third-party, accredited certification bodies or registrars conduct forest management, certified sourcing and CoC certification audits.

This guide focuses on CoC management systems for forest based products recognized in British Columbia, Canada.

WHAT IS CHAIN OF CUSTODY?

Chain of Custody is an information trail about the path taken to track raw materials from certified forests and other sources through each processing or manufacturing stage until the resulting product reaches the store shelf or the end-user. In addition,

it can be used to track characteristics such as the proportion of recycled content.

Chain of Custody can also assist in determining the potential level of risk associated with trading illegally harvested wood or wood harvested in violation of traditional or civil rights – an important consideration in light of the fact that only

10 per cent of the world's forests are certified. This means there is a good chance you have some non-certified content in your supply chain, and you want assurance that it is not the result of controversial harvesting practices, especially if it is from offshore jurisdictions that lack Canada's rigorous forest laws and enforcement.

BUILDING YOUR CHAIN OF CUSTODY MANAGEMENT SYSTEM

Here are some things to consider when building your CoC management system:

CoC Management System Choices

All of the forest management certification programs used in Canada – the Canadian Standards Association (CSA) Sustainable Forest Management Standards, the Forest Stewardship Council (FSC), and the Sustainable Forestry Initiative (SFI) program – have an associated CoC option, and associated product labels. The FSC and SFI programs have developed their own CoC standards. To ensure international alignment, CSA has adopted the Programme for the Endorsement of Forest Certification (PEFC) CoC standard (PEFC ST 2002:2010) for the purposes of its program.

There is no CoC standard that recognizes certified wood from all of these sustainable forest certification programs. However, the SFI and CSA programs are both endorsed by the PEFC scheme, and the PEFC CoC standard recognizes content certified to any PEFC-endorsed certification scheme. The SFI CoC standard recognizes certified content from any acceptable forest management standards in North America endorsed by PEFC (e.g. CSA and

the American Tree Farm System (ATFS)).

The one or more CoC certification standards you choose should be balanced and based in part on the needs of your customer, the certification status of your source product, the geographic source area of your product and your intended use of certification logos or labels.

Cost for CoC Management

The cost to establish, certify and maintain a CoC management system will depend in part on the type of organization (i.e., primary or secondary manufacturer, etc.), the size of the organization (i.e., the number of facilities within the scope of the certification), the geographic source of your raw material, the certification standard chosen and whether or not there is an intent to use certification labels or logos.

Typically costs are incurred from four sources:

1. *System development, implementation and maintenance*

The cost depends on your starting point and the complexity of your wood supply chain. For example, you may be able to simply adjust your existing procedures or you may need a more time-consuming overhaul.

A system which requires the company to

physically segregate certified from non-certified product is the least expensive to implement and certify. Maintenance costs may be more expensive long term as a result of adding multiple product lines (i.e., certified versions vs. non-certified) and the potential for increased warehousing requirements to separate multiple product lines.

Systems which mix certified and non-certified products (through the use of the volume credit or percentage method/system) are typically more expensive to implement initially but may have lower long term maintenance costs.

2. *Third-party audits*

Depending on the number of sites and complexity of the supply chain, it usually takes as little as a day or as many as three days on-site for the initial audit and for subsequent annual audits. Note: You may also need to audit suppliers who do not have their own CoC systems so you can verify the validity of their sources.

3. *Membership fees*

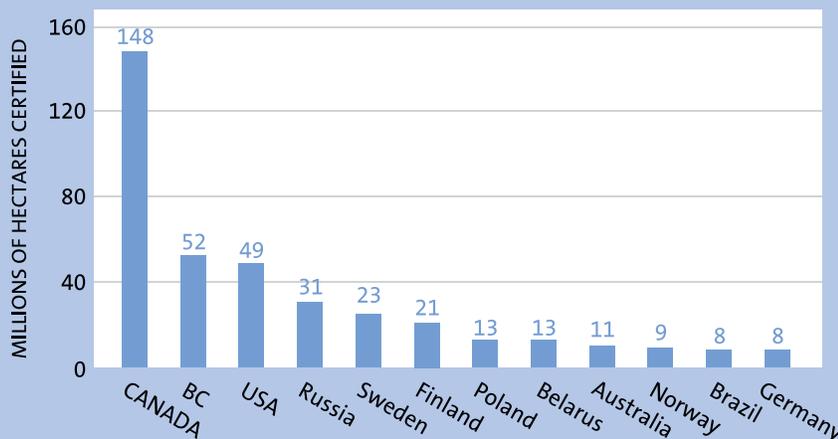
Fees are specific to the standard and type of business being certified. Costs are determined by the number of facilities being certified, the dollar value of gross sales or even whether the company is considered a primary or secondary manufacturer.

Fees are typically collected by the third-party auditor and remitted to the national certification body for each of the standards.

4. *Logo and label use*

Depending on the standard, logo and label use fees may be included in the annual membership fees or invoiced separately by the national body for the standard. Fees are included within the FSC and SFI membership fees. PEFC Canada will only bill those companies who have signed logo use agreements and intend to use the PEFC logo.

CANADIAN CERTIFICATION IN THE GLOBAL CONTEXT YEAR-END 2012



Sources: www.certificationcanada.org (as of Dec 31/12), www.fsc.org (as of Dec 31/12), www.pefc.org (as of Dec 31/12)



Assurances of Non-Certified Content – Risk Assessments

All CoC standards require screening of any uncertified wood prior to mixing with certified product for the purpose of selling a product with a certified claim. The screening is done to ensure product comes from legal, authorized and credible sources. These sources are termed controlled or non-controversial, depending on the standard, and these sources are risk assessed to exclude wood that is illegally harvested, unauthorized, or stolen. Some certification programs may exclude other specific characteristics such as genetically modified trees, natural forests converted to plantations, or areas without effective social laws addressing worker rights, or indigenous peoples' rights.

Risk Assessments are generally technical in nature and require a thorough knowledge the legislative environment of the geographic areas being sourced.

Multiple Certification Standards

Certifying to multiple standards can be considered. As there are many overlaps within the requirements of the standards, you may find it more cost effective to develop a management system covering multiple standards and conduct the corresponding certification audits at the same time. Having more than one CoC certification can allow you to track fibre from multiple forest certification programs and offer your customers more choice in the certified products you offer. This could translate into expanded business opportunities.

Calculating Certified or Recycled Content

There are two general ways to track wood flows in CoC standards:

1. *Physical Separation* – This method or system requires certified product to be segregated from non-certified product. The certified raw material is kept separate so it remains clearly identifiable throughout the entire production/trading/storage process.
2. *Percentage or Credit* – Under the percentage or credit-based method, the proportion of certified/recycled content going into a product is tracked, and either a volume credit or percentage is calculated.

a) Volume credit: The certified content is allocated to a specific portion of the production. If, for example, 40 per cent of the material going in is certified or recycled, then 40 per cent of the production is considered 100 per cent certified (and 60 per cent is considered uncertified). This allows an organization to target its certified content for a specific customer or product. Credits can typically be retained for up to 12 months.

b) Percentage method/system: A percentage of the raw material in the production batch or a rolling average during a specified time period is calculated. This is then distributed through the entire batch/output. If 40 per cent certified or recycled content goes into the batch, then all of the output is considered to be 40 per cent certified.



GETTING STARTED

Here are some considerations to get you started:

1. Decide which CoC standard or standards to use. This choice may be influenced by your customer's needs, the forest certification standard(s) you support, and your marketing strategy. Certification bodies (registrars) can typically certify to more than one standard during a single audit so some companies certify to multiple CoC standards.
2. Contact certification bodies (registrars) who are qualified to certify your operations under the standard(s) you have chosen. Certification bodies (registrars) retained to certify your operation can not provide consultation services to develop or implement your CoC management system however, they know the standards, and can give you a good indication of what will be involved for your particular circumstances. Many of your existing procedures may support CoC certification, such as contracts, log tracking and contractor payment programs, stumpage payment programs, and mill quality control systems. A list of qualified certification bodies (registrars) is available from the websites of the respective certification systems.
3. Review your company's processes to ensure that raw materials that are not certified come from controlled or non-controversial sources. You will need to carry out a risk assessment and may need to set up procedures to verify that your suppliers are sourcing materials from legal, non-controversial or even reclaimed sources, depending on the standard.
4. Make sure your existing management systems can effectively track the flow of wood from both certified and non-certified sources, as well as recycled materials, through the various stages of processing and manufacturing. Products need to be identified and in some cases segregated, with appropriate backup documents at all stages. Information on weight or volume is needed to calculate the certified content of the final wood products.
5. Arrange the audit once the CoC system is in place, and act on the results. Discuss with your certification body whether there are cost benefits in having your forest (should you be responsible for forest management activities) and CoC audits done at the same time.
6. Promote that you are CoC certified and let customers know what the certification logos or labels mean.

A chain of custody can be used to track any product (nuts, coffee beans, wood) or characteristic (locally grown, organic) from source to consumer and guarantees the validity of claims. Legal investigations and forensic work use chain of custody to establish the integrity of evidence, showing it has not been tampered with since it was collected.



DECLARATIONS / LABELS

Once your operations have achieved CoC certification, you may need to apply to use an appropriate logo or label that indicates the certified and/or recycled content. These marks are trademarked or copyrighted, and you must first obtain the rights to use the label from the standards body and then follow the rules for

each label. The rules are dictated through a separate standard from the CoC requirements.

Logo use rules differ based on the intended use which generally includes on-product or off-product (promotional) use.

The type of label used will depend on which chain of custody certification you have, and may depend on other elements such

as whether the products are solid wood or composites, and the use of certified, controlled or recycled fibre in the product.

The chart below lists the key labels that are currently available.

Each certification program lists current labels on its website.

ON-PRODUCT LABELS AVAILABLE WITH A CERTIFIED CHAIN OF CUSTODY

PROGRAMME FOR THE ENDORSEMENT OF FOREST CERTIFICATION SCHEMES (PEFC)

Endorsed Schemes In Canada:

*Canadian Standards Association (CSA) Sustainable Forest Management Standards
Sustainable Forestry Initiative (SFI) 2010-2014 Standard (Objectives For Land Management)*

PEFC Certified



- The product includes a minimum of 70% of raw material from sustainably managed forest which has been certified against a PEFC endorsed forest certification scheme or from recycled material. The content of recycled material is lower than 85%.
- Non-certified raw material shall be controlled as not originating from controversial sources.
- Where the product does not include recycled material, the label claim shall be used without the word “recycled”.

PEFC Recycled



- The product includes a minimum of 70% of “PEFC certified” material from recycled sources.
- Non-certified raw material shall be controlled as not originating from controversial sources.

FOREST STEWARDSHIP COUNCIL (FSC)

FSC 100%



- The FSC 100% label identifies products manufactured with 100% FSC-certified virgin fibre from FSC-certified forests.
- Only companies that are FSC chain of custody certified and using 100% FSC-certified virgin fibre are allowed to place this FSC label on a certified product.

FSC Mix



- The FSC Mix label identifies products manufactured with a mixture of FSC-certified material, recycled material, and controlled material.
- Use of mobius loop is optional and reflects presence of post consumer and/or eligible pre-consumer fibre in the product.

FSC Recycled



- The FSC Recycled label identifies products manufactured with at least 85% recycled material.
- The new Recycled label mobius loop includes both pre-consumer and post-consumer waste content.

SUSTAINABLE FORESTRY INITIATIVE (SFI)

Chain of Custody Label for Volume Credit Method Label



- This label may be used by any chain-of-custody certified company that uses the volume credit chain-of-custody method.
- The volume credit method allows a company to label only the percentage of output corresponding to the percentage of certified forest content used in the manufacturing process.
- For example, if the company uses 30% certified forest content in its manufacturing facility over the course of a year, it can use the volume credit method to label 30% of that year's output with the "Promoting Sustainable Forestry" label.

Chain of Custody Labels for Average Percentage Method



- These two labels may be used by any chain-of-custody certified company that uses the average percentage chain-of-custody method
- The average percentage method allows manufacturers to consistently label 100% of their products with the average percentage labels.
- Use of the average percentage labels is contingent on the production batch having at least 10% certified forest content. The SFI certified company must communicate the actual percent of certified forest content on the label.
- For example, if the SFI certified company has an average of 15% of their fibre supply from certified forests, the company must state 15% on the label using one of the two labels depicted.

Recycled Content Claims



- All of the chain-of-custody labels above can include a Mobius loop stating the percentage of post-consumer recycled content in the product.

Certified Sourcing Label



- The SFI certified sourcing label and claim do not make claims about certified forest content.
- Certified sourcing can include fibre sourced from a company that conforms with objectives 8-20 of Section 2 - SFI 2010-2014 Standard's fibre sourcing requirements, from pre or post consumer recycled content, or from a certified forest, and fibre sourced from non-controversial sources.



PROMOTIONAL (OFF-PRODUCT) MARKS



FSC logo can be used for promotional or educational purposes if authorized by the FSC National Office (for non-certified companies), or by an accredited certifier (for certified companies).

www.fsc.org

www.fsccanada.org



Designed for educational or promotional purposes, this label indicates support for sustainable forest management and PEFC certification.

www.pefc.org

www.pefccanada.org



Logo marks may only be used by program participants in good standing whose operations have been certified by an SFI certification body.

www.sfiprogram.org

REGISTRARS (CERTIFYING BODIES)

FSC Accredited Certification Bodies

http://www.accreditation-services.com/accreditation_of_cbs.html

PEFC Notified Certification Bodies

<http://register.pefc.cz/search3.asp>

SFI Certification Bodies

<http://www.sfiprogram.org/files/pdf/CertificationBodies.pdf>

Standards Council of Canada

<http://www.scc.ca/en/programs-services/ms/directory-of-accredited-bodies-and-scopes>

Canada has more third-party certified lands than any other country – 148 million hectares (almost 365 million acres) - by year-end 2012 - Canada had 38% of all the world's certified forest lands. - To compare, only 10% of the forests in the world are certified.

Those numbers reflect voluntary certification efforts that go beyond Canadian forestry regulations, which are among the most stringent in the world.



About 50% of wood products exported from Canada come from British Columbia's sustainably-managed sources. This publication is part of the 'Forest Facts' series, published by Forestry Innovation Investment. Visit www.naturallywood.com for details.

naturally:wood®

British Columbia wood. Sustainable by nature. Innovative by design.