



# CHAIN-OF-CUSTODY CERTIFICATION & GROUP CHAIN-OF-CUSTODY CERTIFICATION

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## Chain-of-Custody Certification & Group Chain-of-Custody Certification

### *Expanded Opportunities for Small Businesses in the United States*

#### Introduction

Chain-of-custody (CoC) certification is the process by which the source of a forest product is verified. Timber or other raw material from certified forestland is tracked and identified in documentation from the forest through all the steps of the production process until it reaches the end user. Recent data estimates nearly 30,000 CoC certificates have now been issued worldwide (Figure 1).

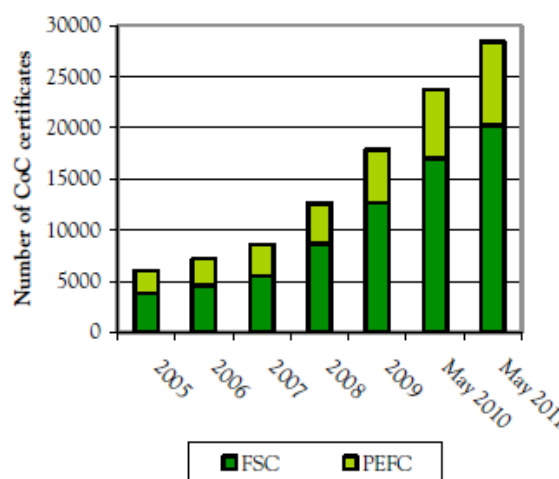
The major certification programs in the United States, including the Sustainable Forestry Initiative (SFI) and the Forest Stewardship Council (FSC) offer *group certification* for small businesses. Group chain-of-custody certification allows eligible businesses to share the responsibilities of a single certificate when manufacturing and marketing certified forest products. The group structure allows for pooling of resources and distributed costs. Experience has shown that in some situations the cost savings for each member of the group can be 50% to 80% less than when pursuing an individual certificate.

In 2010, the Forest Stewardship Council (FSC) introduced revised criteria for group chain-of-custody certification that expands opportunities for small businesses in the United States.<sup>1</sup> The recent revisions expanded eligibility in the United States to include “any small business with annual forest product sales less than \$5,000,000 USD.” In response to this change, additional FSC groups have been formed, pre-existing groups have grown, and opportunities for small businesses to participate in FSC chain-of-custody certification have been expanded.<sup>2</sup> The SFI program does not have minimum or maximum size limits for businesses participating in group chain-of-custody.

This report explains Chain-of-Custody Standards and Group Chain-of-Custody Policies of the FSC and SFI.<sup>3</sup> Opportunities for continued expansion of group chain-of-custody are also discussed.

Figure 1.

#### Chain-of-custody certified trends worldwide, 2005-2011



Source : UNECE/FAO Forest Products Annual Market Review, 2010-2011

<sup>1</sup> Document reference for FSC group CoC certification: FSC-PRO-40-002a

<sup>2</sup> See Table 1 for previous criteria that apply to all other countries except for the United States where the revised eligibility criteria have been approved.

<sup>3</sup> Document reference for SFI group CoC certification: *Section 9: SFI 2010-2014 Audit Procedures and Auditor Qualifications and Accreditation, Appendix 1.*



### Case Study: True North Certified Forest Products Network

The True North Certified Forest Products Network established a group chain-of-custody program in 2009 and currently includes 15 members located in the upper Midwest. Members have joined for a variety of reasons, including marketing opportunities.

“As increasing numbers of architects, builders, remodelers and homeowners are looking to build green and applying for LEED (Leadership in Environmental and Energy Design) and MN GreenStar certification,” states Jeff Forsythe of Nordecor in Brainerd, MN, “I felt that it was time to prepare our company to serve this growing market segment through FSC certification. The True North Network offered us the opportunity to achieve FSC certification in a quick and very resourceful manner.”

The Network is a FSC-COC group certification program (# SCS-COC-002432). The Network™ offers a low-cost group FSC chain-of-custody certification program for loggers, primary and secondary producers/manufacturers, wholesalers and distributors, brokers and agents, and retailers of forest-based products.

True North also offers consulting services to help companies that are interested in an individual certificate to achieve cost-effective and timely certification. The services offer decision-making guidance, one-on-one training, a comprehensive development manual with documentation worksheets, assistance in application and audit preparation, FSC marketing plans, and cost-effective consulting rates. Organizations can purchase a copy of the *Company Chain-of-Custody Certification Manual* - a comprehensive template, worksheet and training resource for FSC-COC certification.

For more information, see: [www.TrueNorthCertified.com](http://www.TrueNorthCertified.com)

### Background

In 2002, the Forest Stewardship Council (FSC) approved a policy for group chain-of-custody. As stated by FSC: “*Group Chain of Custody (CoC) certification has been developed in order to assist smaller enterprises wishing to achieve FSC CoC certification... It is expected to particularly benefit those groups of small enterprises that already have a legal organization or the support of an external support organization, such as a trade association or cooperative.*” The policy was updated in 2004 to establish the eligibility criteria for group certification (Table 1). In 2010, unique eligibility criteria were approved for group chain-of-custody certification in the United States (Table 1).

Since the establishment of the FSC group CoC eligibility criteria, a number of “group entities” have been formed to manage and administer group chain-of-custody certificates on behalf of their group members (Table 2). As seen in Table 2, a number of these entities have formed FSC group CoC programs since establishment of the new criteria for US-based group certificates.

Table 1. Group FSC Chain-of-Custody (CoC) Eligibility Guidelines(i)

Generic Eligibility Criteria	Have no more than 15 employees (including full time, part time, and seasonal staff), OR
	Have no more than 25 employees and an annual turnover of US\$1,000,000.
USA Eligibility Criteria	Any small business with annual forest product sales less than \$5,000,000 (USD)

(i) An additional requirement for all groups is that “All group members shall be located in the same single country as the group entity.” Sources: FSC-POL-40-002; FSC-PRO-40-002a

Table 2. Group FSC Chain-of-Custody Certificate Holders in the United States (*January 2012*)

<i>Year Est.</i>	<i>Group Name</i>	<i>Product group(s) and service area</i>	<i># of Members</i>
2004	Upper Mississippi Certified Forests Products Group	Solid wood products, Minnesota	8
2005	The Trust to Conserve Northeast Forestlands	Roundwood (logs) and Solid wood products, Maine	12
2008	Southern Forests Network	Solid wood products, Southeastern U.S. Region	2
2009	Indiana Department of Natural Resources - Division of Forestry	Solid wood products, Indiana	54
2009	True North Certified Forest Products Network	Solid wood products, Upper Midwest U.S. Region	15
2010	Regional Affiliate Certificate Group I c/o PINE	Printers, USA	84
2010	Healthy Forests, Healthy Communities Partnership	Solid wood products; Pacific Northwest U.S. Region	27
2011	Regional Affiliate Certificate Group II, c/o PINE	Printers, USA	64
2011	WoodNet USA	Solid wood products, USA	97
2011	Wood Products Manufacturers Association (WPMA)	Solid wood products, USA	12
2011	Forest Products Certification Group	Solid wood products, USA	16
2011	Sustainable Resources Institute	Roundwood (logs), Upper Midwest U.S. Region	18
2011	Wood Products Associated Industries	Solid wood products, USA	12

Source: <http://info.fsc.org/>, Accessed 1/19/12

The SFI program established policies for group certification in 2005 in association with their international endorsement by the Programme for the Endorsement of Forest Certification schemes (PEFC).<sup>4</sup> To date, no SFI group CoC certificates have been issued.

Chain-of-custody certification procedures are defined by the standards set by the certification program (the standard setting body), verified through auditing implemented by the accredited certification body, and initiated via the certification application and program implementation of the forest product company (Figure 2). In Group CoC certification, the relationship between a group manager and the group members is added to the procedures and the roles and responsibilities for these parties are outlined in the certification standards (Figure 3).

<sup>4</sup> For further information about PEFC and the endorsement process, see: <http://www.pefc.org>

Figure 2. Chain-of-Custody Roles and Responsibilities

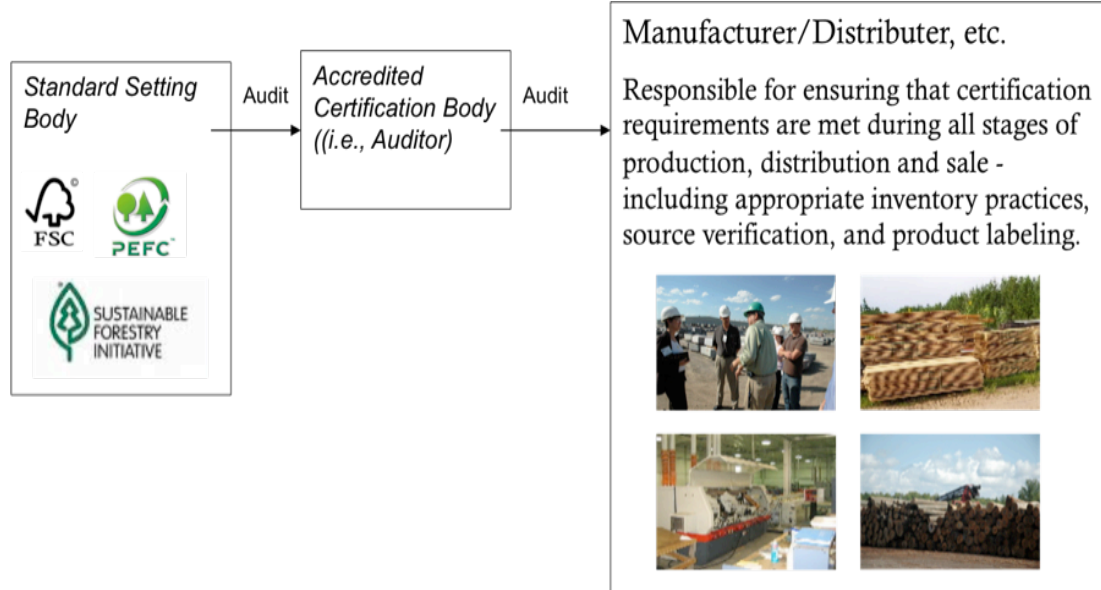
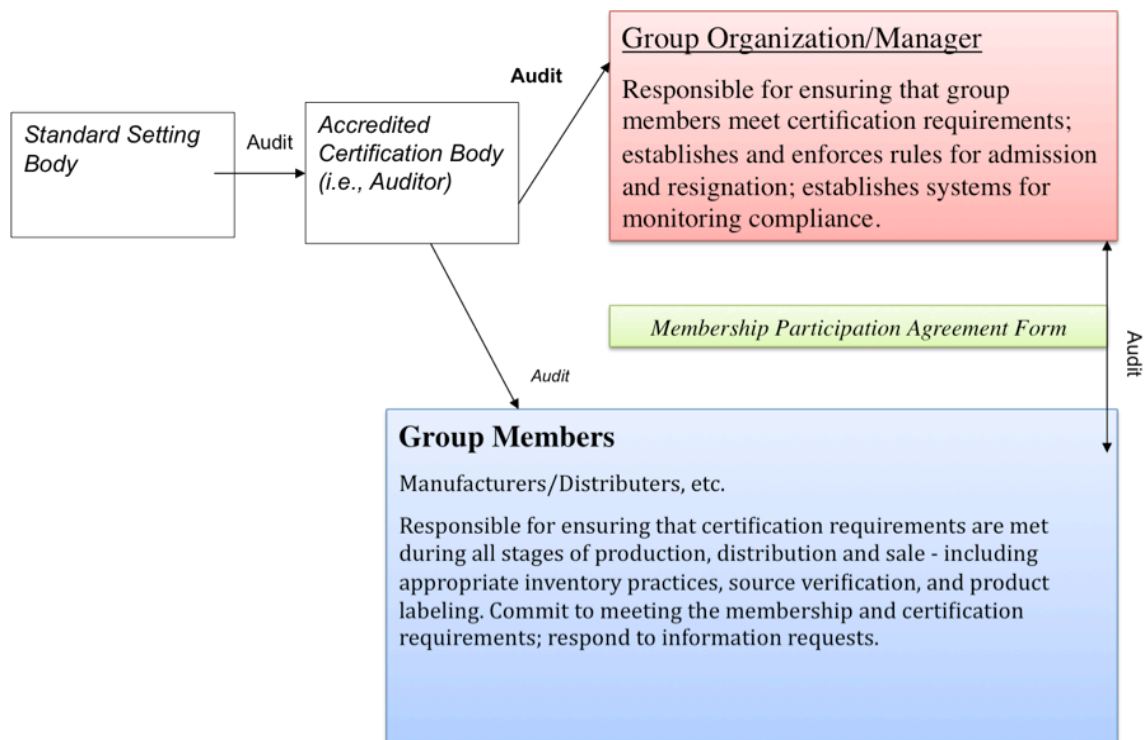


Figure 3. Group Chain-of-Custody Roles and Responsibilities



## Chain of Custody Standards and Group Chain of Custody Standards

The group manager and group members that are participating in group CoC certification are responsible for complying with the standard for chain-of-custody certification as well as the policy for group CoC certification.

### *FSC Standard for Chain-of-Custody Certification*

The FSC standard includes this description of chain-of-custody: *“FSC Chain of Custody is an information trail about the path taken by products from the forest... to the consumer including each stage of processing, transformation, manufacturing, and distribution where progress to the next stage of the supply chain involves a change of ownership. For a product to be claimed as FSC certified (through a product label or sales documentation), there must be an unbroken chain of certified organizations covering every change in legal ownership of the product from the certified forest up to the point where the product is finished or sold to retail.”*

The FSC COC standard<sup>5</sup> consists of four parts:

- 1) The universal chain-of-custody requirements that apply to all operations,
- 2) Three control systems for managing the chain-of-custody program that organizations can choose from,
- 3) Requirements regarding the use of on-product labels for certified products, and
- 4) Supplementary requirements that may or may not be applicable depending upon the specific situation

### Universal CoC Requirements

Universal CoC Requirements contained within the first part of the FSC standard address the basic parts of the CoC Management system, including:

1. Quality management, responsibilities, procedures and records
2. Product scope (definition of product groups and any outsourcing arrangements)
3. Material sourcing and specifications
4. Materials receipt and storage (identification and/or segregation of certified materials)
5. Production control (control of quantities and determination of FSC claims)
6. Sales and Delivery (documentation procedures for invoicing and shipping)
7. Labeling (use of the FSC labels on products)

To meet these requirements, companies generally develop an operations manual. This document is also referred to as a “Documented Control System.” It is recommended that the structure and framework of the Documented Control System closely parallel the FSC CoC Standard (e.g., using the same headings and hierarchy, see Box 1).

Following the structure of the standard helps to demonstrate to the certification auditor that all components of the standard have been addressed in the management system. Examples or templates of Documented Control Systems for chain-of-custody certified companies can be found online,

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<sup>5</sup> Document reference: FSC Standard for Chain of Custody Certification, FSC-STD-40-004 V2-1

purchased, or developed by a group manager or consultant that offers these materials and other chain-of-custody preparation services.

In general, the FSC and SFI CoC requirements parallel each other. Specific noteworthy differences between the programs are identified in Table 4 (page 17).

Box 1. Example of Framework for Four Components of the Quality Management Section of the Documented Control System for FSC CoC

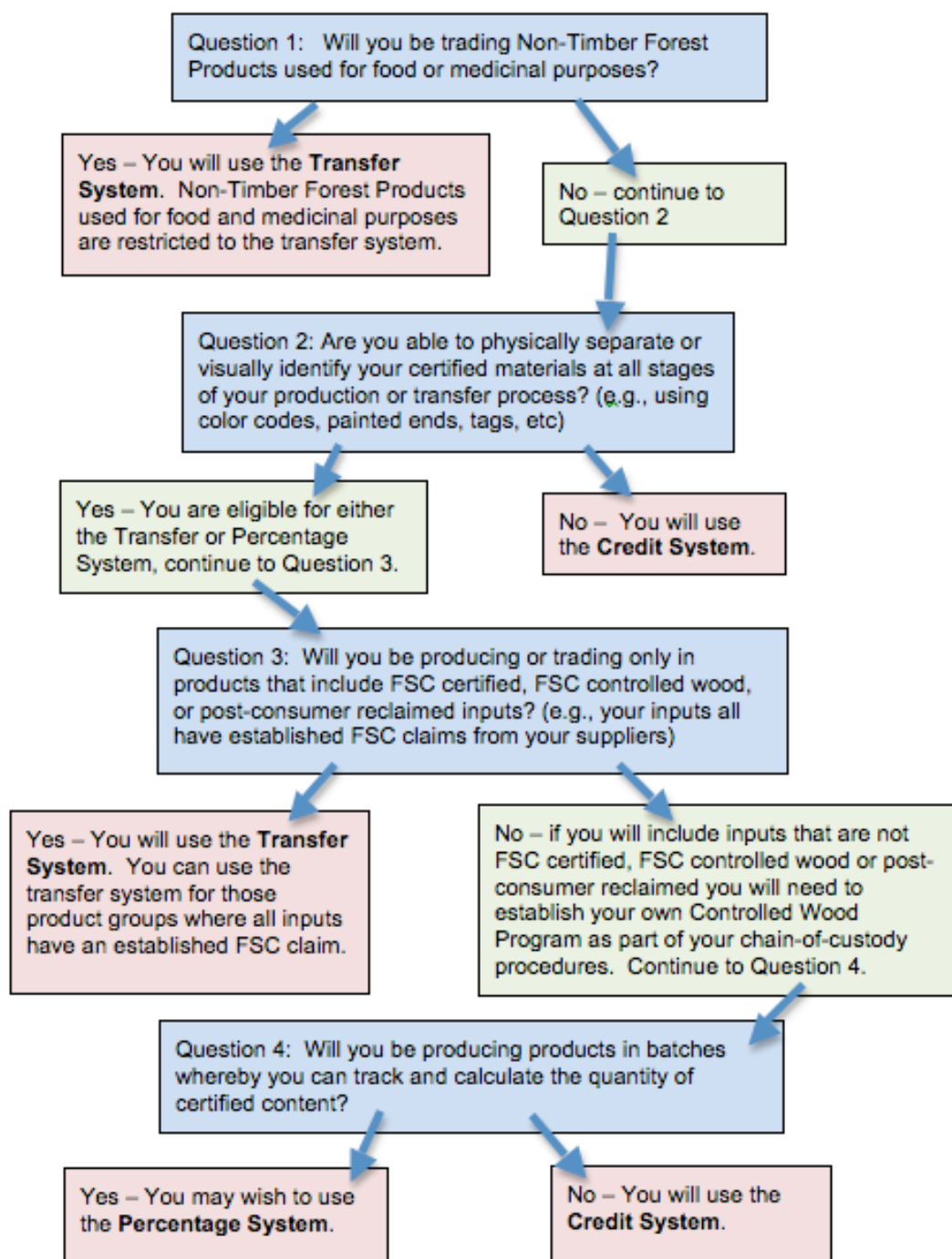
1. Quality Management
  - 1.1 Responsibilities
    - 1.1.1 Name of Management representative with overall responsibility for the organization's chain-of-custody systems: *Ms. Jane Doe, Sales Director and CoC Manager*
    - 1.1.2 Program for staff training on CoC system: *Periodic training is held with all staff having CoC program responsibilities and records of training sessions are kept that include the date of the training, topics addressed, and attendees*
  - 1.2 Procedures
    - 1.2.1 Procedures and work instructions regarding the CoC system are established and maintained in the companies' Documented Control System that addresses all aspects of the requirements
    - 1.2.2 Personnel responsible for each procedure are identified in the Documented Control System and these individuals are trained to ensure appropriate implementation of the system
  - 1.3 Training
    - 1.3.1 Periodic training is held with all staff having CoC program responsibilities to ensure understanding of the procedures
    - 1.3.2 Records of training sessions are kept that include the date of the training, topics addressed, and attendees
  - 1.4 Records
    - 1.4.1 Complete and current records are kept covering applicable requirements of the CoC standard
    - 1.4.2 Certification records and reports, including purchase and sales documents, training records, production records, volume summaries and trademark approvals are kept at least five (5) years.

### Systems for Controlling FSC Claims

The second part of the FSC CoC Standard addresses control systems. There are three available control systems that companies can choose from: **Transfer System; Percentage System; Credit System**. There are specific situations that will determine which system is the best option. Not all systems will be available or applicable to an individual company or a specific type of product or product group (Box 2).

## Box 2: FSC Chain-of-Custody Control System Decision Tree

*Note: Before answering these questions, you must identify the product groups you will be certifying (e.g., what certified products will you be producing and/or trading?)*



Source: Dovetail Partners, Inc. 2012

## Transfer System

The Transfer System is potentially the easiest system to implement because it does not require the same degree of data tracking, record keeping and calculation as the other systems. However, the Transfer System cannot be used in all situations (Box 2). Companies must be making products that only include certified, controlled<sup>6</sup> or post-consumer inputs<sup>7</sup> in order to be eligible for the Transfer System. Companies must also be able to physically separate or visually identify certified materials at all stages of production. Companies can produce certified and non-certified products. The Transfer System can be used for those products that meet the requirements.

## Percentage System

The Percentage System can be used when a company is making products that include inputs that are received from the supplier as non-certified, non-controlled, or non-post-consumer inputs. However, the company will still need to physically separate or visually identify the certified content at all stages of production. The company also needs to calculate and record the input percentages of certified content for the product group. Certified content thresholds (e.g., 70%) need to be met in order for product groups to be eligible for labeling. For the non-certified and non-controlled content, the company will need to establish their own controlled wood program (see below for more information about Controlled Wood). All FSC certified products must only contain eligible inputs (i.e., FSC certified, controlled and post-consumer inputs).

## Credit System

The Credit System can be used when a company is making products that include inputs that are received from the supplier as non-certified, non-controlled or non-post consumer inputs and when physical separation or visual identification of certified content is not possible during at least some stage of production. The credit system operates like a “certification bank account”. Companies must track the amount (volume or weight) of certified material purchased and add it to the balance of their “credit account”. As certified products are produced, the utilized volume is subtracted from the account. There are limits to the length of time that credits can be held in the account, and companies must provide justification for the conversion factors that are used to represent product utilization and withdrawals from the credit account. For the non-certified and non-controlled content, the company will need to establish their own controlled wood program (see below for more information about Controlled Wood). All FSC certified products must only contain eligible inputs (i.e., FSC certified, controlled and post-consumer inputs).

## Controlled Wood

The FSC CoC Standard is closely associated with additional standards addressing “controlled wood”.<sup>8</sup> Companies producing products that include a non-certified portion need to comply with the FSC controlled wood standard. This standard includes two main requirements for CoC companies: 1) completion of a Controlled Wood Risk Assessment of suppliers of non-certified

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<sup>6</sup> The term “controlled” refers to materials that comply with the FSC Controlled Wood Policy, for more information, see: <http://www.fsc.org/cw.html>

<sup>7</sup> Use of recycled or reclaimed content requires conformance with FSC-STD-40-007.

<sup>8</sup> Document references: FSC-STD-30-010-V2, *Controlled Wood standard for Forest Management Enterprises*; FSC-STD-40-005-V2, *Company Evaluation of Controlled Wood*.

content; 2) a Controlled Wood Program that includes the policies and procedures for meeting the controlled wood standard and a system for keeping the information in the risk assessment up-to-date (e.g., annual review for necessary changes).<sup>9</sup> Companies can also purchase verified controlled wood from suppliers and avoid the need to complete their own risk assessment.

### Labeling

The third section of the FSC CoC standard addresses on-product labeling with the FSC logo and trademarks. The type of label that a company can use will depend upon the type of control system that is applied (Table 3). Use of the FSC logo and trademark requires review and approval from the accredited certification body.

Table 3. Control Systems and Potential FSC Labels

<b>Control System</b>	<b>Potential FSC Labels</b>
Transfer System	FSC 100%, FSC Mix, FSC Mix 70%, FSC Recycled 85%, FSC Recycled, FSC Mix Credit, FSC Recycled Credit
Percentage System	FSC Mix, FSC Mix 70%, FSC Recycled 85%
Credit System	FSC Mix Credit, FSC Recycled Credit

### Supplementary Requirements

There are additional FSC CoC requirements addressing outsourcing and minor components that may or may not apply to a specific company or product group.

#### Outsourcing

If a company relies upon outsourcing for any part of the production or transfer of their FSC certified products, the outsourcing section of the standard applies. To be eligible to include outsourcing within the scope of the CoC, the company needs to have and maintain legal ownership of the material during the outsourced process. The company also needs to address outsourcing procedures in their documented control system and an outsourcing agreement must be in place to address the requirements of the standard. In general, the outsourcing agreement will need to provide assurance that the company will receive the same material back after the service is completed (e.g., the agreement restricts substitutions).

#### Minor Components

Product groups may contain up to 5% non-eligible input in some cases and when there is appropriate justification. The company must provide a written justification of why materials could not be source from FSC-certified, controlled or reclaimed materials. Some materials such as solid wood veneers used as the visible face cannot be specified as minor components. In late 2011, the FSC announced an intention to phase-out minor component accommodations by the end of 2012. This policy change is being made to ensure that FSC certified products comply with government legality efforts such as the US Lacey Act.

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<sup>9</sup> Additional information about controlled wood is included in the Dovetail Report: *FSC Controlled Wood Standard: What It Is and What It's For*, available at: [http://www.dovetailinc.org/files/DovetailCtrlldWd0507ry\\_0.pdf](http://www.dovetailinc.org/files/DovetailCtrlldWd0507ry_0.pdf)

### *SFI Standard for Chain-of-Custody Certification*

The SFI CoC standard<sup>10</sup> was last updated in January 2011. The standard identifies management system requirements as well as the methods of controlling the certified content. In addition to offering group certification, the SFI program has an established program for multi-site certification that allows businesses with multiple locations to share certification responsibilities. The SFI program is also developing efforts for “Coordinated Certification” which has been used to assist forest landowners in Maine and could also be applied to chain-of-custody.<sup>11</sup>

#### Management System Requirements

The minimum management system requirements provide the framework for the SFI chain-of-custody procedures. These requirements can be addressed within the organization’s operating procedures and records are kept to document conformance with the standard. The elements of the standard include:

1. Responsibilities and Authorities for Chain of Custody
2. Documented Procedures
3. Record Keeping
4. Resource Management
5. Inspection and Control

#### Methods of Control

The SFI standard identifies two primary methods of controlling the certified content of production, the physical separation method and the percentage-based method. The volume credit method is addressed as an option within the percentage method.

##### Physical Separation Method

The SFI CoC Physical Separation Method is similar to the FSC Transfer Control System. To qualify for the physical separation method, certified content is stored separately or clearly identifiable at all stages of production or trade. The requirements for physical separation are further defined with three available strategies: 1) Physical separation in terms of product and storage space, or 2) Physical separation in terms of time, or 3) Permanent identification of the certified forest content.

##### Percentage-Based Method and Volume Credit Method

Within the SFI standard, the Percentage-Based Method applies when certified and non-certified content is mixed and cannot be clearly identified in the output products. To implement this method, the product batch needs to be defined along with the raw material inputs, production site and time period of production or sale. Production batches can be defined for single products or a product group using similar inputs. The maximum time period for a production batch is three months. The percentage of certified content is calculated for each production batch.

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<sup>10</sup> Document reference: Section 3. SFI Chain-of-Custody Standard

<sup>11</sup> For more information about SFI’s Coordinated Certification, see: <http://www.pefc.org/news-a-media/general-sfm-news/news-detail/item/770-sfi-inc-welcomes-extension-of-maine-forest-certification-project>

To apply the calculated percentage to the outputs, an Average Percentage Method or a Volume Credit Method can be used. The Average Percentage Method allows all products of the production batch to be labeled with the actual percentage of certified content. When applied to solid-wood products produced from mixed sources, the products can be labeled with a statement that indicates “Product Line Contains At Least X% Certified Forest Content”.

The Volume Credit Method for SFI CoC is similar to the FSC’s Credit Control System. To apply volume credit, a credit account is established to track the amount of certified material acquired and credit is subtracted as material is utilized in production batches. The SFI standard stipulates that the total quantity of credits in the credit account cannot exceed the sum of credits entered into the account during the last 12 months. Use of the volume credit method results in all products produced with available credits being sold as 100% certified.

### Controversial Sources

Within the SFI Percentage-Based Method, there is the additional requirement to implement a process to avoid controversial sources of raw materials sourced from outside the United States and Canada. For production batches that include materials sourced from outside of these countries, the organization must evaluate risk for controversial sources and occurrences of issues related to legal and social concerns within the supply chain. Similar to the FSC controlled wood policy, SFI chain-of-custody certificate holders must complete a risk evaluation and establish a program to address any significant identified risks. The SFI program also has fiber sourcing requirements for promoting responsible forestry and ensuring legal sourcing in North America.

### Additional Requirements

#### Outsourcing Agreements

The SFI standard requires certificate holders who use contractors for part of their processing or manufacturing activities to apply for inclusion of these outsourced processes within the scope of their certificate and to demonstrate legal ownership of all input materials included in the outsourcing activities.

### **Group Chain-of-Custody Requirements**

In addition to the Chain-of-Custody standards, CoC group managers and group members are also subject to policies addressing group certification. The requirements for FSC and SFI group certification are similar to each other.

#### *FSC Policy for Group Chain-of-Custody Certification*

The FSC Policy for Group Chain-of-Custody Certification<sup>12</sup> includes the group eligibility criteria (Table 1). The major sections within the policy include A) Group Requirements and Responsibilities, and B) Certification Procedures.

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<sup>12</sup> FSC Policy, Group Chain of Custody (CoC) Certification: FSC Guidelines for Certification Bodies, FSC-POL-40-002 (2004)

*Group Requirements and Responsibilities*

This section of the FSC policy addresses the basic requirements for group entity authority, group management and documentation.

FSC Group Entity and Group Member Requirements

The organization that serves as the group entity (e.g., group manager) must be an individual or legal entity. This entity will be contractually responsible to the certification body for meeting and maintaining the FSC standards and for conducting annual monitoring of each member and ensuring each member meets all of the FSC policies. The group entity has the authority to remove members and shall have documented procedures for managing the group. All group members must comply with the FSC CoC standard and follow the group entity's requirements.

**Box 3: Group Management Documentation, Informed Consent and Record Keeping**Group Management Documentation:

- Procedures for new members to join
- System for providing information and/or training to group members
- Procedure for initial inspection of potential group members to verify compliance with certification requirements before being admitted
- Annual monitoring procedures and method for providing monitoring results to the certification body
- System for ensuring certification body approval for all certified claims and use of the logo
- Written guidelines that outline CoC procedures for members
- Policy for notifying the certification body in writing within one month of any group member joining or leaving the group

Informed Consent Procedures:

- Provide documentation or access to documentation regarding the terms and conditions of group membership, including:
  - o Copy of the CoC standard
  - o Explanation of the certification process and rights of access for evaluation, monitoring and public reporting of audit results
  - o Explanation of group membership obligations and associated costs
- A 'consent form' must be signed by each group member to acknowledge and agree to the requirements for the full period of the group certificate and to authorize the group entity to apply for certification on the members behalf

Record Keeping Requirements:

- Centralized record keeping system and method for providing summary reports
- Policy of keeping records for at least 5 years
- Maintenance of current and complete records for each member that includes:
  - o Names and addresses
  - o Evidence of meeting the eligibility criteria
  - o Date of entry into the group
  - o Assigned sub-code
  - o Signed consent form
  - o Documentation and records of CoC system (e.g., documented control system)
  - o Monitoring records
  - o Production and Sales Records
  - o Date of exit from the group and an explanation (if applicable)

The standard outlines the policies and procedures to be addressed in group management documentation, as well as the requirements for demonstrating informed consent and necessary record keeping (Box 3). Most group managers choose to develop an operations manual or handbook for addressing these requirements. Examples of these manuals are available online or can be purchased from existing group entities or developed with the assistance of a consultant.

### Certification Procedures

The Certification Procedures section of the FSC group CoC policy outlines the procedures to be followed by the certification body (i.e., auditors) when undertaking evaluations of group CoC programs. Certification bodies are required to establish and document their procedures for group CoC audits, and applicants should request copies of these procedures from the certification bodies when selecting a service provider for their audit.

### Risk Analysis and Sampling

The certification body is required to establish and justify a procedure for risk evaluation based upon the complexity and scale of the group being audited. The results of the risk evaluation are used to determine the sampling requirements for the audit.

The FSC policy requires a minimum sample size of “the square root of the number of sites, rounded to the nearest whole number” for initial audits. For example, if a group applicant has 15 member sites, the minimum sample size would be 4. For annual audits (i.e., surveillance or monitoring audits) the minimum sample size is 60% of the square root of the number of sites, rounded to the nearest whole number (i.e., in the scenario of 15 members, the annual surveillance sample minimum would be 2 sites). Audit teams can deviate from these minimums based upon the level of risk. Risk is correlated to a number of factors that reflect the variability within the group and the level of group manager control. Low risk is associated with groups where there is a centralized process of group management and when the group includes companies that are fairly homogeneous with similar products and processes. The final selection of sites to visit includes a number of considerations, including the selection of different sizes of businesses, different products and production systems, and those members with a higher probability of near-term use of the certification claim and labels. The policy also requires that 25% of the sites be randomly chosen.

Risk analysis methods, procedures for determining compliance and sampling methodologies are established by the certification body as part of their procedures. Applicants for FSC group CoC auditing services should request this information from the certification body when applying or requesting a proposal and bid.

### Certification Reports and Certificates

Group managers are required to provide the name and contact information for all members so that this information can be included in the FSC certification report and made publicly available. The list of members should include the name of the company, their certificate sub-code, a contact person, and the product groups for that member.

Auditors are required to evaluate the group entity's capacity to manage the FSC group and determine an acceptable rate of growth for the group. The permitted rate of growth is expressed as the number of new members per year or a percentage increment (e.g., up to 100% growth per year or 15 new members). It is important to understand the auditor's approach to determining growth limits because it can directly impact the economic viability of a group certification program.

When a group entity is certified, an FSC chain-of-custody certificate and FSC CoC code are issued for the group entity. Each group member is assigned a sub-code based upon the group entity's code. For example, if the group entity has the code of CBX-COC-123, the group members would be assigned codes like CBX-COC-123-A, CBX-COC-123-B, CBX-COC-123-C, etc.

### Monitoring of New members

When new members are added to the group, they are treated like a new group in terms of sampling and site visit selection during the next annual surveillance audit. For example, if the group included 15 members in year 1 and by year 2 an additional 15 members are added, the auditor would sample a minimum of 2 members from the original group (60% of the square root, rounded to the nearest whole number) and 4 from the recently added group (the square root, rounded to the nearest whole number) for a total minimum sample of 6 from the group of 30.

### *SFI Policy for Group Chain-of-Custody Certification*

The SFI policy for group certification is addressed in *Section 9. SFI 2010-2014 Audit Procedures and Auditor Qualification and Accreditation* document. The SFI policy addresses group certification as a specific type of multi-site organization. The policies for multi-site organizations apply to the SFI auditing of group certificates.<sup>13</sup> The SFI policy does not limit the size of member organizations.

### SFI Multi-Site and Group Certification Requirements

- Legal or contractual link between participants
- Similar scope and scale of activities at participating sites
- Consistent management system framework across sites
- Establishment of a "Central Function"<sup>14</sup>, providing a centralized system of management that:
  - o Provides the certification commitment on behalf of participants to maintain compliance with the standard
  - o Provides information and guidance to participants to assist with meeting the standard
  - o Maintains contractual connections with participants
  - o Retains the right to exclude participants in cases of serious non-conformance with the standard
  - o Keeps a register of participants
  - o Maintains internal auditing or monitoring program to provide annual performance data regarding conformance with the standard

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<sup>13</sup> Document reference: International Accreditation Forum Mandatory Document 1 (IAF MD1): 2007, Normative for SFI 2010-2014 Standard, Informative for SFI Sections 3 and 4

<sup>14</sup> Equivalent to FSC's "Group Manager" role.

- Operates a review of participant conformity to support assessment of the group as a whole
- Establish corrective and preventive measures to maintain conformance with the standard
- Establish procedures for adding new sites and participants, including internal assessment of conformance with the standard and implementation of corrective and preventive measures
- Required to inform the certification body of changes in participation prior to including new sites within the scope of the certification
- Participants (individual sites) are required to:
  - Implement and maintain the requirements of the standard
  - Respond to requests from the Central Function or certification body for data, documentation or other information
  - Cooperate and assist with internal audits, reviews, and corrective actions
  - Implement corrective and preventative actions established by the Central Function

The SFI sampling requirements for multi-sites include the following minimum criteria:

- Stratification of sites based on the scope and scale of activities, previous audit findings, compliances and monitoring data collated by the Central Function
- Documented evaluation of control risks at each site
- A sampling strategy that addresses the identified risks
- Consideration of an element of randomness within the sampling strategy
- Sample sizes for internal auditing done by the Central Function shall be a minimum of the square root of the number of participants for initial certification audits; 60% of the square root for surveillance audits; and 80% of the square root for re-certification audits
- When the Central Function does not conduct internal auditing, the minimum sample size is the square root of the number of participants
- Annual audits shall include auditing the Central Function as well as individual sites

The SFI standard requires a public summary audit report that indicates if the certificate is for a multi-site and whether or not it is also a group certification organization. The public summary report provides information about the sampling approach and any changes in the scope of the certificate since the last report. The chain-of-custody certificate is issued to the Central Function and lists all of the participants. Additional information about audit scope, duration, non-conformities and reporting requirements are addressed in the SFI procedures.

### **Overall Impact of the Group COC Policy**

The opportunity to participate in a group chain-of-custody program can provide significant advantages for small businesses. Costs can be much less than if an individual certificate is pursued and the company can benefit from the technical assistance provided by the group entity.

The recent changes to the FSC group chain-of-custody US eligibility requirements create improved opportunities for the development of certified groups. Chain-of-custody groups can be formed as an added benefit of membership for existing associations and the new policy makes many more companies eligible to participate.

## Key Differences between FSC and SFI Chain-of-Custody Certification Requirements

The FSC and SFI chain-of-custody requirements offer similar structures and policies for controlling and documenting certified product content. Examples of differences between the requirements are summarized in Table 4.

Table 4. Examples of Differences between the FSC and SFI Chain-of-Custody Requirements

<i>Topic</i>	<i>FSC Requirement</i>	<i>SFI Requirement</i>
Record Keeping	5 years	3 years
Risk Evaluation of Non-Certified Content	Controlled Wood Policy applies to all non-certified content	Primary producers must be certified to the fiber sourcing objectives for all non-certified forest content. Controversial Sources Policy applies to non-certified content sourced from outside of the U.S and Canada
Internal Auditing	Required for Group Managers	Required for all CoC certificate holders
Group Chain-of-Custody Member Size	Any small business with annual forest product sales less than \$5,000,000 (USD)	No minimum or maximum size limits

## Additional Considerations

Chain-of-custody and group chain-of-custody can be fairly complex and jargon-filled programs. However, the complexity is made much more manageable once a company has identified the components of the standards that are applicable to their situation and eliminate those components that are not relevant. Companies can also start their chain-of-custody program with a more straightforward part of their production (e.g., a product group that is eligible for the transfer control system) and then grow the program as market opportunities, customer interests and/or employee understanding develops.

## The Bottom Line

Small businesses are a critical part of the forest sector and forest product supply chain. The growth of forest product certification relies upon the engagement of small businesses. The need to engage more companies, especially small companies and primary producers, in chain-of-custody is part of the motivation behind the group chain-of-custody policy and the recent efforts to expand participation in the United States.

*This report was prepared by*  
**DOVETAIL PARTNERS, INC.**

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