

FSC CONTROLLED WOOD STANDARD  
*WHAT IT IS AND WHAT IT'S FOR*

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## **The FSC Controlled Wood Standard**

### ***What it is and what it's for***

#### **Introduction**

The Forest Stewardship Council's (FSC's) revised "FSC Controlled Wood" standard<sup>1</sup> came into effect for FSC chain-of-custody certified primary wood product manufacturers on January 1, 2007 and will become effective for secondary manufacturers January 1, 2008.

For FSC and its members the standard's primary purpose is to ensure that all of the non-FSC-certified wood in 'mixed' FSC products comes from acceptable sources, as defined by the FSC membership. But the standard potentially has other uses - as a tool to exclude illegally harvested timber from company supply chains; as a 'first step' for modular approaches to certification; and as a tool to manage reputational risk in the forest sector. The standard also has potential negative impacts, including additional costs for companies labeling 'FSC-mixed' products and, potentially, for forest product companies operating in or sourcing from 'controversial' forest regions.

This article explains the origins of the "Controlled Wood" standard and its requirements.

#### **What is 'FSC Controlled Wood'?**

"FSC Controlled Wood" is the name FSC has given to wood which is not FSC-certified but which has been vetted to exclude the most controversial sources.

In the context of product labeling and procurement the standard intends to provide a basis for buyers to 'support the best and avoid the worst'<sup>2</sup>. 'The worst' being defined by the FSC membership as including:

- Illegally harvested wood;
- Wood harvested in violation of traditional and civil rights;
- Wood harvested in forests where high conservation values are threatened by management activities;
- Wood harvested in forests being converted to plantations or non-forest use;
- Wood from forests in which genetically modified trees are planted.

#### **Origins of the 'Controlled Wood' concept**

When FSC was conceived, the general assumption was that the FSC label would be attached to products made exclusively with 'wood from well-managed forests'. In other words, 100 percent of the wood in such products would be from forests meeting the FSC Principles and Criteria for Forest Stewardship.

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<sup>1</sup> FSC-STD-40-005 V1-0 EN FSC Standard For Non FSC-certified Controlled Wood, Available at: [http://www.fsc.org/en/about/documents/Docs\\_cent/2,37](http://www.fsc.org/en/about/documents/Docs_cent/2,37)

<sup>2</sup> Other forest certification programs, including the PEFC and SFI, also have requirements for avoiding controversial sources and generally focus on combating illegal logging.

However, the reality of the timber trade is that very large volumes of timber are traded from diverse sources. Vertically integrated companies in which manufacturers buy all their raw material from the same small number of forest management units over a period of time are very much the exception. It quickly became apparent that restricting the FSC label to products containing 100 percent FSC-certified wood would severely limit FSC's ability to exert a major influence on forest management.

So, FSC (and other forest certification programs) were faced early on with a decision whether to allow some proportion of wood from 'non-certified' sources to be included in products carrying a certification label. Acceptance in principle of *some* proportion of certified wood then led to questions about *what* proportion and what (if any) requirements or conditions should be attached to the uncertified wood component.

In 1997 (and controversially at the time) FSC labeling policy was modified to allow up to 30 percent of the wood in chip and fiber products or 'assembled products' (such as furniture) to come from uncertified sources. 'Solid wood' products (e.g. lumber) needed to be entirely of FSC certified wood. The general response of large-scale industry was that it was still too difficult to meet these requirements in most cases, even where companies were highly integrated and strongly committed to the FSC concept. The message was that if lower entry points were not included in the system, industry would simply be unable to bring significant volumes of FSC-labeled product to the market.

At the same time FSC advocates and environmental stakeholders were very concerned that if FSC-labeled products started to contain higher proportions of non-certified wood, the FSC label could become little more than a green sticker covering 'business as usual'. FSC would be actively promoting products that continued to contain wood from highly controversial examples of forest management. Without some method for excluding such wood, these stakeholders concluded that they could not support a lower entry point for labeling.

Between industry's demands for more flexibility so they could participate in FSC certification programs and manufacture FSC labeled products, and environmental interests concerned about the loss of the label's integrity, FSC seemed to have reached a stalemate. A new FSC policy, approved in November 1999, pointed the way to a solution.

The policy proposed that, in relation to the uncertified component of FSC labeled products: *"FSC will develop a set of guidelines for: legality, tracking of origins, excluding material from High Conservation Value Forests... [and], excluding material from areas with significant extant disputes with indigenous peoples."* The objective would be to implement safeguards against the use of raw materials from unacceptable sources in products carrying the FSC logo. The FSC Board of Directors made it clear that such safeguards would have to be in place in order for more flexible labeling requirements to be implemented.

A new 'FSC percentage-based claims policy' was subsequently approved the following year. Key elements of the policy were that companies making percentage-based claims would be required to: establish a publicly stated policy to exclude "controversial" sources of wood; appoint a responsible contact person; and establish a

monitoring or tracking system sufficient to fulfil the requirements of the company policy. Certification bodies would assess companies' policies and determine whether their associated tracking systems were adequate to meet the specified objectives.

The new FSC policy introduced the flexibility in labeling that industry had demanded, but included safeguards on non-certified content, which aimed to exclude undesirable sources of wood from FSC-labeled products. The new policy also added wood from Genetically Modified Organisms (GMOs) to the list of controversial sources.

### **FSC Controlled Wood**

The 2000 policy revision opened the way for a rapid increase in the availability of FSC-labeled products and participation in the FSC program. However, it did not reduce continuing demands for further reform of FSC chain of custody requirements, particularly from Sweden, Germany and the UK, where market demand was strongest.

In the context of that debate the FSC 'percentage-based claims' policy was reviewed again to determine whether it was working, both in terms of bringing FSC labeled product to market and maintaining the integrity of the FSC label. One finding was that although many companies were taking advantage of the lower thresholds for FSC labeling of their products, few had introduced effective policies and credible systems for identifying and excluding 'controversial' sources of timber from their supplies. It was concluded that clearer and tighter systems were required if controversial sources were to be effectively excluded. 'FSC Controlled Wood' standards and verification systems were developed to meet this objective.

### **Is the list of 'controversial' practices the right one?**

As noted earlier, the current definition of 'FSC Controlled Wood' identifies wood from five situations as being unacceptable for inclusion in FSC-labeled products:

- Illegally harvested wood;
- Wood harvested in violation of traditional and civil rights;
- Wood harvested in forests where high conservation values are threatened by management activities;
- Wood harvested in forests being converted to plantations or non-forest use;
- Wood from forests in which genetically modified trees are planted.

The Programme for the Endorsement of Forest Certification schemes (PEFC) and the Sustainable Forestry Initiative (SFI) also now require certificate holders to evaluate their potential risk for procuring raw material from "controversial sources". PEFC's definition of controversial sources is "*Illegal or unauthorized harvesting*". In lieu of a definition of 'controversial sources' SFI states that "*Illegal logging is the theft of timber or logs and cutting in parks, reserves, or other similar areas where otherwise precluded by law*"<sup>3</sup>.

The differences between the FSC and SFI/PEFC programs' understanding of 'controversial' sources are significant. The SFI/PEFC program does not try to exclude wood from the conversion of natural forests to plantations or other land-uses, or wood

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<sup>3</sup> <http://www.sfiprogram.org/generalPDFs/SFI%20Requirements.pdf>

harvested from areas where Indigenous Peoples rights may be violated, so long as the activities are accepted as legal in the country of origin. Nor is the use of genetically modified (GM) trees considered to be 'controversial' in the SFI or PEFC systems. SFI and PEFC consider the exclusion of genetically modified trees from certified forest products to be misguided.

The issues considered controversial by FSC's stakeholders are broader, and it will be more difficult to exclude all affected sources from FSC-labeled products. Ultimately it will be up to the market to decide whether the additional cost and effort is justified by the benefits of promoting products to consumers with the 'FSC Mixed' label.

### **How to exclude controversial sources from labeled products**

The main aspect in which the FSC Controlled Wood standard is a departure from previous FSC standards is in its approach to risk assessment.

Companies subject to the standard are required to evaluate their non FSC-certified sources to determine the level of risk that any of the five identified activities may be occurring. Annex 2 of the FSC Controlled Wood standard includes guidance for completing this evaluation.

Further verification is required for wood sourced in areas that are identified as “high risk” in relation to these practices. The objective of the process is to encourage companies to evaluate the perceived risk and to take additional measures to reduce risk in areas where it is high.

If a company can show that all of its sources of wood come from low risk areas, then it has no need to expend further resources on identifying sources to the level of the forest management unit (FMU). It is only when a company is sourcing wood from districts which are *not* low risk that the company needs to implement further verification.

Both SFI and PEFC have subsequently followed FSC in adopting a risk-based approach to the exclusion of 'controversial sources' from their labeled products, although in these programs 'exclusion of controversial sources' is limited to the verification of company or third party declarations that wood was not illegally harvested. An SFI or PEFC certified company must evaluate the risk that supplies may be from illegally harvested sources at a regional or national level. If the company considers the source is from a high risk region or country, then it must establish a program for verifying the supplier's declaration. The key differences with FSC requirements are in the range of issues that must be considered (discussed above) and in the specification of requirements to be evaluated and/or addressed to reduce risk.

The risk-based approach should tend to reduce the cost of sourcing from 'low risk' as opposed to 'non-low risk' areas, other factors being equal. This potential economic impact is controversial, as responsible producers in 'non-low risk' areas could claim that they are being disadvantaged as a result of factors beyond their control. This has been of particular concern for stakeholders in developing countries with weak systems of protection for 'high conservation value' forest and poor records of legal compliance.

However, although the risk-based approach would be expected to add to the transaction cost of sourcing wood from 'high risk' areas, it is not a boycott - still sometimes suggested as an alternative response. The controlled wood approach should also create some incentive for companies to support actions to reduce levels of illegality, violation of indigenous rights, etc. not only in their own operations but also by neighboring companies. By doing so they can reduce the perception of risk in the areas in which they operate, and so reduce the cost of verification for their own operations.

It remains to be seen how companies will implement the requirements of the different systems, how effective they prove at excluding the products of illegal logging and other controversial practices from labeled products, and whether such efforts are sufficient to protect the integrity and value of the different labels at a reasonable cost.

### **Potential impacts**

FSC Controlled Wood was developed in response to specific challenges relating to the labeling and brand values of FSC-certified products. All companies using the FSC label will have to ensure that all the wood in their FSC-labeled product lines meets at least the requirements of the FSC Controlled Wood standard. As a first step this will mean identifying 'low risk' areas of supply. The second step will require FSC Controlled Wood verification for suppliers from 'non low risk' areas.

In the short term this creates both a competitive risk and a competitive opportunity for non-FSC certified suppliers in 'non-low risk' areas.

There is a risk that buyers will be dissuaded from sourcing from non low risk areas, because of the increased cost of verification. Conversely, a forest management company that can supply 'FSC Controlled Wood' from these areas should have a competitive advantage over those that cannot.

Uptake of the standard will be driven initially by strength of demand for the 'FSC Mixed' label, and the relative costs and benefits of complying with the Controlled Wood standard for non-FSC certified suppliers operating in 'non low risk' areas.

But the Controlled Wood standard also meets other objectives which may be important to forest product manufacturers and broaden its uptake.

### **A step towards certification**

Firstly, FSC Controlled Wood certification provides an 'entry level' step for companies that aim to achieve full certification in the long term but cannot implement all the requirements in the short term. Taking this step will allow managers to maintain market linkages with FSC certified chain of custody certificate holders, familiarize themselves with certification procedures, and progressively implement more demanding requirements for full certification.

Such modular or 'step-wise' approaches to certification have long been encouraged by organizations such as FAO and ITTO. Companies may or may not choose to aim for

FSC certification in the long term, but certification against the FSC Controlled Wood standard should help them prepare for such a step, should they choose to take it.

### **Legal Compliance**

Perhaps more importantly to companies which have no long term marketing interest in the FSC label for themselves or their customers, 'FSC Controlled Wood' provides an international, off-the-peg tool to help combat illegal logging.

The risk based approach does not provide a 100 percent guarantee that all illegal wood will be excluded from trade. It is unlikely that any system can provide such a guarantee at reasonable cost. And, the FSC Controlled Wood requirements are relatively narrow in relation to the total number of legal requirements that could be evaluated. But the system does provide a tool that any company can use today, anywhere in the world, to demonstrate to public and private sector customers and investors that they are exercising 'due diligence' to avoid the purchase, processing and sale of illegally harvested products.

JP Morgan Chase and Goldman Sachs have both identified verification of compliance with the FSC Controlled Wood standard as a useful tool in relation to legal compliance in the forest sector. The policy of JP Morgan Chase states that a company *"...will not finance companies or projects that collude with or are knowingly engaged in illegal logging. Clients that process, purchase, or trade wood products from high risk countries will have certifiable systems in place to ensure that the wood they process or trade comes from legal sources. Due diligence will include company representations as to its practices, monitoring and, by 2007, chain of custody certification (e.g. FSC controlled wood standard) for illegal logging"* (JP Morgan Chase Environment Policy).

It seems likely that FSC Controlled Wood certification will become increasingly valuable for companies and governments as they are called on to demonstrate that they are taking adequate measures to combat illegal logging.

### **Reputational Risk Management**

More generally, the FSC Controlled Wood standard serves as a basic tool for companies to manage reputational risk associated with the forest product sector.

The JP Morgan Chase and Goldman Sachs environmental policies refer explicitly not only to the need to combat illegal logging, but also to the need to protect high conservation values; to the rights of indigenous communities regarding issues affecting their lands and territories; and to forest conversion.

The *FSC Principles and Criteria* is a demanding requirement for forestry investment or wood trade. The FSC Controlled Wood standard provides a basic standard that can be viewed as a pre-requisite, rather than as a target, for business transactions. For companies seeking investment, the FSC Controlled Wood standard covers several bases.

## **Conclusion**

It is expected that wood marketed under the FSC Controlled Wood standard will increase substantially in volume in the next few years. At the most basic level adoption will be a direct consequence of company compliance with FSC chain of custody requirements.

Certification to the FSC Controlled Wood standard should also be a useful 'first step' for forest management companies committed to long term achievement of FSC certification through a modular or 'step-wise' approach.

Finally, compliance with the FSC Controlled Wood standard provides a ready to use tool for governments and companies to avoid the purchase of illegally harvested timber, and to protect themselves from reputational risk associated with some of the most controversial aspects of the international timber trade.

There are certainly costs associated with this level of rigor and commitment to tracking sources and suppliers. However, such rigor appears to be increasingly expected by customers. It may become standard business practice where concerns about illegal timber and the social and environmental impacts of forest management remain high.

A significant milestone in international trade will be reached when this same level of accountability begins to be applied to other raw material sectors. In the meantime, the forest sector is leading the way.

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

*Dovetail Partners is a 501(c)(3) nonprofit corporation that collaborates to develop unique concepts, systems, programs, and models to foster sustainable forestry and catalyze responsible trade and consumption.*

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