



Forest Stewardship Council®



FSC controlled wood strategy process discussion paper



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Discussion
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May 2017

FSC wants to meet aspirations and long term objectives of the [FSC Global Strategic Plan 2015-2020](#) (GSP): to “Turn the Tide” by shifting the global forest trend towards sustainable use, conservation, restoration, and respect for all, and achieve *Forests for All Forever*. This will require a transformative shift in the political and economic drivers of forest management around the world.

In order to “turn the tide”, FSC must establish a new ‘forest paradigm’ to significantly increase our overall impact on the management of the worlds’ forests. This foundational statement highlights FSC’s need to operate at a scale significant enough to move us towards delivering a new paradigm through economic, environmental, and social benefits at the highest level of credibility to our stakeholders.

The current model of FSC relies heavily on the presence and continuation of the FSC Mix products, and by extension, controlled wood. While there is no definitive causal explanation for the accelerated growth of FSC, it is clear that the FSC Mix product category and the availability of the credit system, along with the risk-based approach for controlling wood from uncertified forests is a major factor. FSC Mix is now dominant in the FSC system, and generates the main source of income for the operating costs of FSC.

Since 2013, the Secretariat has been tasked with scrutinizing the existing model with extensive stakeholder input, and, in so doing, developing a long-term strategy for the controlled wood program. The timeframe for the strategy for FSC Mix products is 2035. This timeframe is based on the principles of the Future Search methodology: short enough to motivate the necessary actions and long enough to implement it. For more information on our formulation of strategy, see [Annex 1](#).

Document objective and terminology

The *future approach and direction* of controlled wood within the FSC system is only a limited part of larger core question – ***What is the future approach and direction of FSC Mix products in the FSC system?*** As such this paper will discuss the controlled wood strategy process using the terminology associated with FSC Mix products.

The purpose of this discussion paper is twofold:

- 1.) To inform stakeholders of FSC’s ongoing work to develop a strategy for the role of FSC Mix products and therefore controlled wood.
- 2.) To present and solicit feedback on questions and statements about the direction this strategy should take in the future.

1. History of FSC Mix products

In the early years of FSC, in order to economically incentivize voluntary improvements in forest management practices, claims could be made only in conjunction with products manufactured exclusively (100%) with material sourced from FSC-certified forests.

In time, however, forest product manufacturers made it clear that keeping FSC certified material separate from non-certified material was prohibitively expensive and logistically implausible. They needed a way to allow non-certified inputs to mix with FSC certified material in their production.

The solution was the introduction of the percentage and credit systems (see [Annex 2](#) for more details), and the FSC Mix product category. This allowed organizations to mix certified and uncertified materials, up to a certain ratio. In 2004, FSC introduced controlled wood as the category of uncertified, but still controlled, material allowed in the mix.

FSC Controlled Wood is material from acceptable sources that can be mixed with FSC-certified material in products that carry the FSC Mix label (see [Annex 2](#) for more details). There are five categories of unacceptable material that cannot be mixed with FSC-certified materials:

- illegally harvested wood
- wood harvested in violation of traditional and human rights
- wood harvested in forests in which high conservation values (HCVs) are threatened by management activities (HCVs are areas particularly worthy of protection)
- wood harvested in forests being converted to plantations or non-forest use
- wood from forests in which genetically modified trees are planted.

One of the main goals of introducing controlled wood, and FSC Mix products, into the FSC system in 1997 was to meet the demand for FSC material in the marketplace, while still avoiding unacceptable sources. Since then the FSC system has grown significantly in response to the demand for FSC-labelled material, and most large sectors (e.g. paper, pulp) would not be able to participate in the FSC system without the mixing of controlled wood with FSC-certified material.

Additionally, controlled wood and FSC Mix products have driven the demand for FSC-certified material, as, overall, the majority of material in FSC Mix products still must come from FSC-certified sources. This has indirectly driven the demand for FSC forest management certification, and encouraged leading companies in large sectors to support efforts such as group certification. For a more detailed history of the FSC Mix product category, please see [Annex 3](#).

1.1 The rapid expansion and concerns of FSC Mix products

FSC Mix products began in 2004 with the release of new chain of custody and controlled wood standards. At that point there were less than 5,000 FSC chain of custody certificates worldwide and the growth rate in the number of certificates was modest.

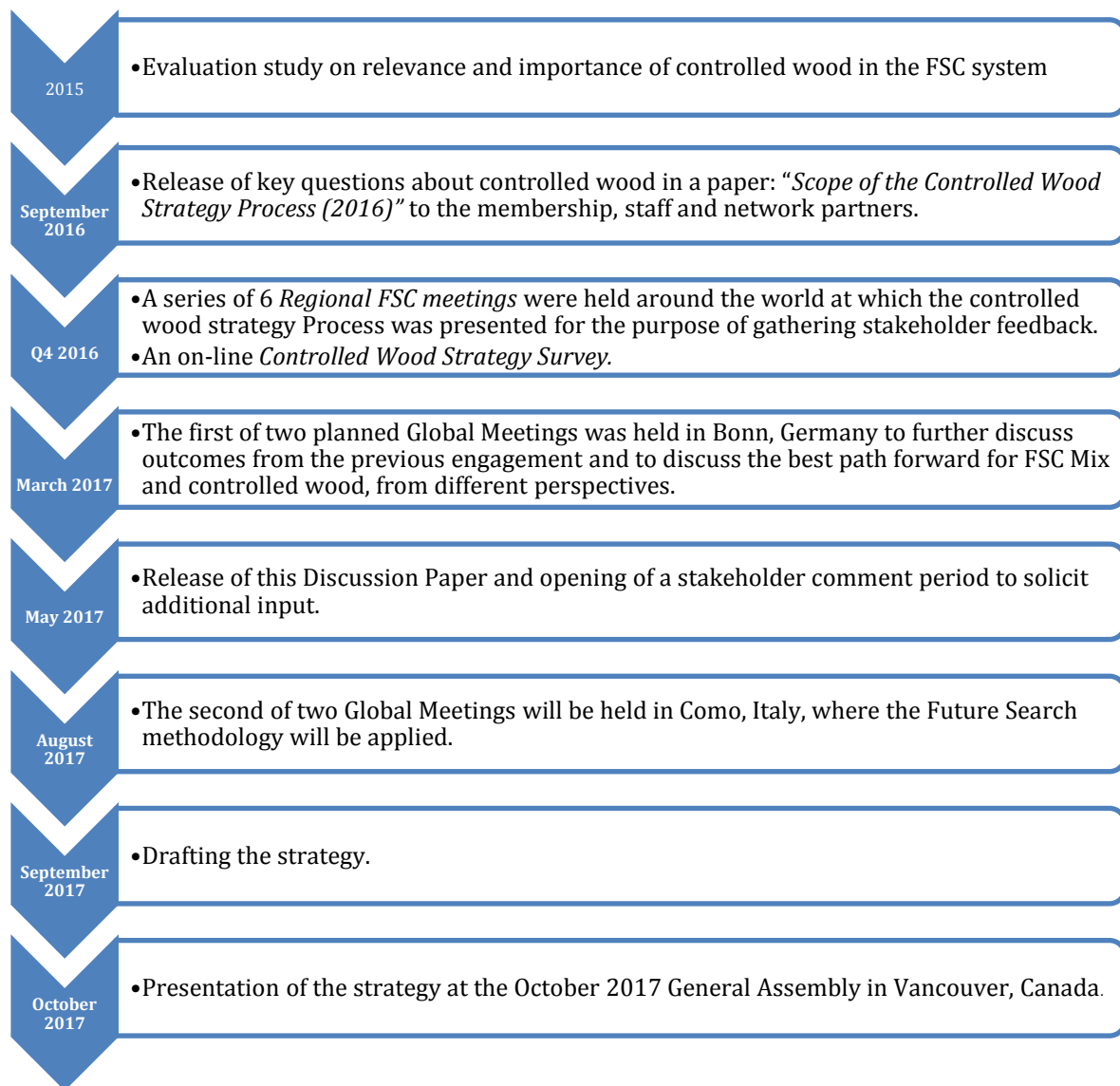
In 2006 the growth rate of FSC chain of custody certificates accelerated at an unprecedented rate, resulting in over 25,000 certificates by 2012. While the growth subsequently slowed, there are now over 31,000 FSC chain of custody certificates worldwide.

While no definitive study has determined the causal factors of the accelerated growth, it is clear that a major factor is the presence of FSC Mix products, along with the risk-based approach for controlling material from uncertified forests. FSC Mix is now dominant in the FSC system, and the main source of income for the operating costs of FSC.

However, from the beginning there have been stakeholder concerns about the uncertified materials used in FSC Mix products due to the level of assurance provided by the controlled wood standards and risk assessments, and the challenge it presented to the credibility of the FSC system (read more in “Controlled Wood Strategy Frequently Asked Questions”). This was particularly pronounced as companies performed their own risk assessments as part of the controlled wood system (read more in “FSC Controlled Wood evaluation 2011-2015, Compilation of studies”).

1.2 FSC Mix products strategy process

Given its importance to the FSC system, and as our members and stakeholders have varied and differing opinions on its future, the FSC International Board of Directors determined that a strategy needed to be drafted to determine the future of FSC Mix products in the FSC system in time for the FSC General Assembly in October 2017. Below are the elements leading up to this.



2. The future approach and direction of FSC Mix products in the FSC system

In 2015 the FSC membership established the [FSC Global Strategic Plan 2015-2020](#) (GSP)– a document that clarifies FSC’s identity and role in the global forest system to ensure that our direction fits the challenges that the world’s forests and forest stakeholders face.

The future approach and direction of FSC Mix products in the FSC system must align with the global strategic plan, and it is vital to establish if mixing is crucial for FSC to achieve its goal of “turning the tide”, or if there are other approaches for achieving this strategic objective that could involve controlled wood and FSC Mix products being phased out. The final approach must ensure a balance between access to the market, FSC growth of global forest-based trade, and system credibility.

To turn the tide, FSC must not think in isolation and it must take into account internal, as well as external factors of the global forest sector within which FSC is operating. First of all we must conclude that, forest conversion and degradation is still rampant, as is illegal logging, and the rights of workers, indigenous peoples and forest communities are often not respected. Furthermore, the forest products business is very diverse, ranging from small-scale community based operations to large-scale multi-national pulp & paper industries. The FSC market presence is dominated entirely by large industrial operations. The forest products industry is, generally speaking, a low-margin business, highly dependent on cost-efficient supply and handling of raw material – its single most significant cost factor.

The sector is growing, driven mainly by global population growth and changing demographics. The demand for wood is expected to double over the coming 15 years. At the same time, FSC certification of supplying forests is still the exception with only 5% of the world's forest (10% of the industrial forest) being FSC certified.

Put simply: To maintain FSC's share of the certified volume while the demand increases, FSC must double its certified area over the same period of 15 years.

However, the certified area is currently growing more and more slowly and FSC certified forests are distributed unevenly between continents and countries as well as between forest types and ownership. FSC certification competes with other schemes; additionally, governments' own certification systems and internal company policies for sustainable sourcing are being chosen over certification like ours. There are also new markets emerging (e.g., rubber, textiles) and there are many other trends indirectly relevant for FSC. Additionally, there are multiple projects conducted by FSC that need to be considered when developing the strategy.

Achieving the FSC strategic plan aspiration of 'turning the tide' will require a transformative shift in the political and economic drivers of forest management all over the world, so that responsible practices are promoted.

Therefore, to "turn the tide" and ultimately establish "a new forest paradigm", FSC must significantly increase its overall impact on the management of the worlds' forests.

FSC must operate at the needed scale, significant enough to move us towards mission-critical outcomes and to deliver economic, environmental and social benefits at the highest level of credibility to our stakeholders. To determine how FSC can grow and operate at the needed scale, while securing the highest level of credibility among its stakeholders, we need to determine the future approach and direction of FSC Mix products in the FSC system.

For more information about the relation of this strategy process to the GSP, see [Annex 4](#).

2.1 Vision and desired outcomes for the future approach and direction of FSC Mix products in the FSC system

From feedback collected so far, with a focus on the first global strategy meeting in late February 2017, stakeholders have identified a main vision and five desired outcomes for the future approach and direction of FSC Mix products in the FSC system. Supporting these desired outcomes is a series of statements and questions that were themselves agreed upon in the February meeting. These five desired outcomes contribute to a shared vision for the future approach and direction of FSC Mix products in the FSC system – we welcome your feedback on the vision, desired outcomes, and supporting statements and questions, keeping in mind the timeframe of 2035.

Please note: During stakeholder engagement leading up to and including the February meeting there was a general sentiment that FSC Mix products should continue in the short run, but **no** consensus was reached on whether or not FSC Mix products should be a permanent part of the FSC system. There was also **no** consensus on the possible timelines or conditions for FSC Mix products.

It also became clear while engaging with stakeholders that the regional context is very important in formulating an effective strategy. In general, stakeholders participating in regional meetings expressed an opinion that mixing should continue. However, there were regional differences expressed in relation to gradual phasing out (e.g. replacing the risk-based approach in CW-CoC with CW-FM over time in several regions), scope of control (e.g. importance of controlling legality), level of acceptable risk, and level of assurance (e.g. zero risk in verifying sources).

Vision

While FSC Mix products are necessary to maintain the current scale and growth of the FSC system, the growth of FSC-certified forests should increase to ensure controlled wood, and FSC Mix products, become less central, if not redundant, to the FSC system with time.

Desired outcome 1: Increase in the area of FSC-certified forests

Positive impact on the management of the worlds' forests can be achieved through FSC forest management certification in accordance with the 10 FSC Principles & Criteria (FSC P&C). However, given the scale needed for FSC to achieve its goal of 'turning the tide', other approaches to maintain and increase FSC certification may also be needed.

Stakeholders agreed on the below statements that support this desired outcome.

1a. A modular approach is needed that effectively enables:

- a step-wise transition from controlled wood-forest management certification to full FSC forest management certification and;
- enhanced attainment of forest management certification by suppliers and sub-suppliers that currently deliver controlled wood to FSC chain of custody certificate holders.

1b. To increase the area of certified forests, mixing should facilitate more trade in FSC products.

No agreement was reached on the role of Controlled Wood-Forest Management (CW-FM) certification.

Desired outcome 2: Avoidance of unacceptable sources in the FSC system

(This desired outcome was developed with the assumption that mixing will continue).

Stakeholders agreed on the below statements that support this desired outcome.

2a. Not just any material should be accepted in mixing – there should be requirements for it.

2b. The requirements for mixing should cover, at a minimum, the five current categories of unacceptable sources¹.

2c. Material that complies with other certification schemes (e.g., PEFC-certified material) should **not** automatically be considered in mixing (there has been consideration by some stakeholders that certain claims from other certification schemes should be accepted as compliant with specific controlled wood unacceptable source categories).

2d. The requirements for mixing should be verified using the risk-based approach (due diligence²).

2e. There should be global requirements for the risk-based approach (due diligence) that can be further nationally adapted.

2f. When implementing a risk assessment within the risk-based approach (due diligence), FSC should use data collected by other organizations when available (e.g. using databases provided by WWF, WRI, Legality Alliance). However, FSC should maintain the responsibility for providing risk assessments.

2g. The scale of risk assessments should be flexible (not fixed at a certain administrative unit such as a country/nation).

2h. Material sourced from organizations disassociated with FSC and their affiliates should not be used.

¹ Wood resulting from: illegal harvesting, violation of traditional or human rights, areas with threatened high conservation values, conversion to non-forest uses, GMO trees.

² Due diligence is a term referring to an investigation or inquiry that meets a level of required carefulness or reasonable care. In the context of FSC and controlled wood, due diligence refers to a system of measures and procedures to minimize the risk of sourcing material from unacceptable sources..

Desired outcome 3: Enabling market access for smallholders

Stakeholders agreed on the below statement that supports this desired outcome.

3a. Support to forest certification should include direct support for key groups (e.g., smallholders, Indigenous Peoples)

Desired outcome 4: Continuous improvement in forest management practices

(This desired outcome was developed with the assumption that mixing will continue).

Clarification: Attainment of this aspiration would be demonstrated through evidence that risk mitigation leads to improvement in forest management, and supply chains delivering 'new' controlled wood. If mixing continues, this implies improved forest management in both certified and non-certified forests.

Desired outcome 5: Shared understanding about the future of FSC Mix and the FSC system and its impact among various groups of stakeholders.

Annex 1

What do we mean by strategy?

There are many definitions and approaches to the strategy. In the simplest sense, a good strategy is a coherent response to a high-stake challenge, where one needs to

- figure out the nature of the challenge, and the desired results,
- design the approach - the guiding policy - that produces an advantage and the intended results, and
- create a set of coordinated actions to carry out that policy.³

The strategy⁴ for FSC Mix products defines the challenge (the central statement) and wants to establish:

- A perspective; a vision and direction for using mixed products, and
- A plan, a "how," a means of getting from here to there.

The timeframe for the strategy for FSC Mix products is 2035. This timeframe was established based on Future Search methodology: short enough to motivate the necessary actions and long enough to implement it.

³ Good Strategy, Bad Strategy, by Rumelt, 2011

⁴ Henry Mintzberg, in his 1994 book, The Rise and Fall of Strategic Planning [3], points out that people use "strategy" in several different ways, the most common being these four:

Strategy is a plan, a "how," a means of getting from here to there.

Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy.

Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets.

Strategy is perspective, that is, vision and direction. (http://www.nickols.us/strategy_definition.htm)

Annex 2

The FSC control systems in the Chain of Custody certification

The FSC chain of custody standard covers a wide range of forest products, including not only wood but also other products like rubber, paper, printed materials, food, and cosmetics. In order to enable the certification of all this variety of products, the standard provides 3 (three) different methodologies for the control of FSC claims (e.g. FSC Mix 70%) that are applied in output products: the transfer, percentage and credit systems.

The **transfer system** is an FSC control system which provides the simplest approach for the determination of output claims by “transferring” the FSC claims of inputs materials directly to the output products. For example, if an input FSC Mix 70% is used in the manufacturing of a product, the output product may also carry the same claim (FSC Mix 70%). The determination of FSC claims in the transfer system is always connected to the real physical composition of the raw materials used in the manufacturing of the products. This is the only system that allows the production of FSC 100% products, but the other FSC claims (FSC Mix, FSC Recycled and FSC Controlled Wood) are also possible under the transfer system.

The **percentage system** is an FSC control system which allows all output products to be sold with a percentage claim (e.g. FSC Mix 70%, FSC Recycled 85%). In the percentage system, FSC Controlled Wood or controlled materials can be combined with FSC and reclaimed inputs for the manufacturing of FSC Mix “x”%, where “x” is the percentage of FSC and other eligible reclaimed inputs over a specified period. In order to carry the FSC label, these products shall contain at least 70% of FSC or eligible reclaimed inputs, and FSC Controlled Wood cannot exceed 30% of the product composition.

The **credit system** is an FSC control system which allows a proportion of outputs to be sold with a credit claim (e.g. FSC Mix Credit, FSC Recycled Credit). In the credit system, FSC Controlled Wood and controlled materials can be combined with FSC and other eligible reclaimed inputs, but the organization can only sell a portion of its production with FSC Credit claims which shall be proportional to the quantity of FSC and reclaimed inputs received by the organization and the applicable conversion factors over a specified period. Organizations can only apply the FSC label in their products if they have bought sufficient FSC and eligible reclaimed input materials to produce the total volume of output products. The volumes of FSC Controlled Wood cannot be labelled as FSC certified.

The percentage and credit systems were introduced to the FSC chain of custody to enable organizations that cannot source 100% of FSC inputs and/or cannot segregate materials at their facilities to produce and sell FSC Mix and/or FSC Recycled products.

Annex 3

History of FSC, FSC Mix product claims, and Controlled Wood Context

Nearly 25 years ago, the Forest Stewardship Council was established around a new paradigm for bringing about more responsible management of the world's forests—to harness the power of the marketplace (the trade of forest products) to induce, through rewards and incentives rather than command and control mechanisms, voluntary improvements in forest management practices. This paradigm came to be known as “forest certification” and the core proposition was and is this:

If forest owners and managers are willing to conform their practices to the forest stewardship standards promulgated by the FSC, and if that conformance is independently verified/certified, the FSC is prepared to endorse certified forest management entities by allowing the FSC name and trademark to be used in conjunction with the sale of forest products from the certified forests of origin on through the many and complex global supply chains through which wood products flow.

To assure validity of product claims carrying an FSC endorsement, forests of origin must achieve and maintain **FSC Forest Management (FM) certification**. And all downstream entities in the wood products supply chains that handle material from FSC-certified forests, be they manufacturers or traders, must achieve and maintain **FSC Chain of Custody (CoC) certification** in order for the FSC endorsement to be maintained.

Chain of custody certification enables wood products handlers and manufacturers to realize market advantage/benefits through the trade of FSC-certified products and, importantly, to provide the pathway by which forest owners and managers can be rewarded for their verified commitment to forest stewardship.

Rather radical at the time of its inception, there are now a host of similar, competing certification schemes in the natural resources sector. But FSC is the first and, by far, the most well-regarded certification scheme. As the leader, it has long fallen on the FSC to continually break new ground and to innovate and revise its procedures and standards in response to developments, challenges and opportunities that have arisen, only a few of which could have been anticipated at FSC's inception in 1993.

Brief History of FSC Product Claims

In the early years, FSC claims could be made only in conjunction with products manufactured exclusively (100%) with material sourced from FSC-certified forests. By 1997, forest products manufacturers—particularly fiber-based operations such as paper manufacturers—were signaling to the FSC leadership that the requisite segregation of FSC-certified material from non-certified material was logistically challenging if not impossible, and very costly. Other types of operations that source inputs from a large number of suppliers

or that have limited capacity for maintaining dual inventories expressed similar concerns. The prospect of further uptake of the FSC system was in question. A solution was needed for enabling access to the FSC system by wood products manufacturers for which segregation of certified from non-certified materials was/is logistically infeasible.

In response, the FSC rules were changed to enable claims on products not comprised exclusively of material from FSC-certified forests, but that contain certified inputs above specified thresholds. Two control systems enable mixing in the FSC Chain of Custody: percentage and credit system. Both vary in respect to the proportions of certified and un-certified material. Importantly, the credit system commonly used by large paper and pulp industries requires that the quantity of finished products that can carry a FSC Mix claim is proportionate to the quantity of certified inputs, which creates demand for certified material in those industries. This change led to a new FSC product category that, some years later, came to be called its present name, **FSC Mix**, which as the name indicates means materials comprised of a mix of material from both FSC-certified forests and non-certified forests⁵. Since 1997, there have been numerous changes and enhancements in the standards (rules) for what are now called FSC Mix products.

But throughout this time period, and unique to the FSC, variations of a core requirement have been in place—that not all sources of uncertified wood can be used in a FSC Mix product. That is, there are defined circumstances (e.g., illegal logging, abuse of human rights, conversion to non-forest land uses) that would jeopardize the FSC Brand if wood from such “unacceptable sources” were to be found within products carrying a FSC Mix endorsement. The process of screening out or controlling so as to avoid such unacceptable circumstances/sources led, in 2003, to the naming of a new category of uncertified wood—**controlled wood**. Only controlled wood can be used in a FSC Mix product (see [Annex 2](#)).

Controlling of uncertified wood (to assure the absence of wood from unacceptable sources) can be undertaken through a risk-based due diligence system (DDS), pursuant to a controlled wood chain-of-custody standard, **FSC-STD-40-005**, or through a forest management unit-specific verification process, pursuant to a different controlled wood standard—**FSC-STD-30-010**. To date, the majority (95%+) of uncertified wood used in FSC Mix products has been controlled via the risk-based FSC-STD-40-005 to assure a low risk of unacceptable material making its way into FSC-certified supply chains.

At present, there are three types of FSC-endorsed wood products: FSC 100%, FSC Mix and FSC Recycled. For simplicity, FSC Recycled is not addressed in this Discussion Paper.

⁵ Wood from forests certified under competing schemes such as PEFC, SFI and others are treated as un-certified, no differently from forests lacking any sort of forest management certification, and therefore need to be controlled for use in FSC certified products.

FSC Mix Products and the Rapid Expansion of the FSC Market Footprint

FSC Mix as a product category came into existence in approximately 2004 in conjunction with the release of standards for chain of custody and the risk-based controlled wood. At the point in time, there were less than 5,000 FSC CoC certificates, worldwide and the growth rate in the number of certificates was modest.

Roughly three years later, around 2006, a clear inflection point in the growth rate of FSC CoC certificates occurred. At that point in time, the growth of FSC CoC certificates accelerated at an unprecedented rate resulting in a total of over 25,000 certificates by 2012. While the growth subsequently slowed, there are now (2017) over 31,000 CoC certificates, worldwide.

In the absence of a definitive study/analysis of the causal factors underlying the rather phenomenal growth in the number of FSC CoC certificates in the first decade of the 21st century, it is not possible to state with certainty why it occurred. But it is beyond question that a major contributing factor was and remains the existence of the FSC Mix product category and the availability of the credit system, along with a risk-based approach for controlling wood from uncertified forests, evidenced by the fact that over 75% of the trade of FSC-endorsed wood products is now from FSC Mix products linked to risk based approach as the controlling mechanism.

Unquestionably, FSC Mix products now play the dominant role in the FSC system. And the FSC system is clearly a “mainstream player” in the world trade of forest products because of the 31,000 CoC certificates, most of which rely upon FSC Mix products.

Annex 4

Controlled Wood in the Context of the FSC Global Strategic Plan 2015-2020

FSC's approach to mixing must be aligned with the FSC Global Strategic Plan (GSP) and was included in the GSP.

The FSC Global Strategic Plan is comprised of:

- A Core Challenge that forest governance and economic systems in many parts of the world provide greater incentives for deforestation, degradation and related social inequities than they do for responsible forest management. This challenge is also relevant for FSC Mix product strategy.
- A 2050 Beacon—a new forest paradigm is realized where the true value of forests is realized and fully incorporated into society
- 2020 Aspiration—to “Turn the Tide” by shifting the global forest trend towards sustainable use, conservation, restoration and respect for all. In the FSC Mix strategy we aim to establish a vision and high-level mechanisms to achieve it by 2035.
- An Objective of “20 by 2020” meaning that the FSC share of global trade of forest products is 20% by 2020;
- Four Commitments: 1) increased focus on outcomes, 2) empowerment of people, 3) mission advancement through alliances, 4) user orientation
- Three Strategies: 1) strengthen the FSC framework and governance, increase market value of FSC, 3) transform the way that FSC works.¹ The FSC Mix strategy has been included as a success criterion for increasing quality and consistency in practice, under Strategy 1. However, it relates to the other strategies, as well.

There are a number of other factors to take into account when considering the future approach and direction of FSC Mix products in the context of the GSP:

- All aspects of FSC must align with the FSC Global Strategic Plan.
- Forest conversion and degradation, and illegal logging, is still widespread, and the rights of workers, Indigenous Peoples, and forest communities are often not respected.
- The forest products business is diverse, ranging from small-scale community-based operations to large-scale multi-national pulp and paper industries. However, FSC market presence is dominated almost entirely by large industrial operations, and a new approach must include the realities and experiences of small forest owners, forest-based communities, and Indigenous Peoples across the globe.
- The forest products industry is largely a low-margin business - return on capital is often below 4 per cent on average (compared to approximately 15 per cent for oil palm plantations), and so this industry depends on cost-efficient supply and handling of raw materials.
- The demand for wood is expected to increase by 40 per cent (or two billion cubic meters) over the coming 15 years. At the same time, FSC

- certification accounts for only five per cent of the world's forest (10 per cent of industrial forest).
- To maintain FSC's market share while demand increases, FSC must double its certified area over the next 15 years. However, the certified area is currently growing more and more slowly and FSC-certified forests are distributed unevenly between continents and countries, as well as between forest types and ownership types (such as large-scale, commercially run operations versus small, family-owned operations).
 - FSC certification competes with other schemes, including government-owned certification systems, and internal company policies for sustainable sourcing.

Achieving the FSC strategic plan aspiration of 'turning the tide' will require a transformative shift in the political and economic drivers of forest management all over the world, so that responsible practices are promoted.

To determine how FSC can grow and operate at the needed scale to achieve this, while securing the highest level of credibility among its stakeholders, we need to determine the future approach and direction of FSC Mix products in the FSC system.