Forest Stewardship Council®



FSC and Corruption

(Version 1.1 - March 2017)

VISION
The world's forests meet the social, ecological, and economic rights and needs of the present generation without compromising those of future generations.

MISSION
FSC shall promote environmentally appropriate, socially beneficial, and economically viable management of the world's forests.

FSC FORESTS FOR ALL FOREVER™

Report

REPORT SUMMARY	
Report Title:	FSC and Corruption
Subject:	FSC efforts to prevent corruption in its supply chains
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0. Introduction

FSC pays considerable attention to the prevention of corruption.

First, FSC expects managers of certified forests not to be corrupt, and second, it expects certification bodies to verify whether corruption is in fact being combatted and/or avoided. FSC complaints procedures can be used by outsiders to raise concerns about corruption.

Moreover, with NEPCon FSC has set up a Global Forest Registry, a publicly available database that gives information about the level of corruption existing in countries relevant to the forestry sector, based on several sources. And our new and revised standards (international generic indicators, controlled wood, chain of custody, and accreditation) will increase the focus on corruption even more.

This paper gives an overview of how corruption is dealt with in the rules and procedures that were operational from 2013 (start of the European Union Timber Regulation [EUTR]), and on how corruption is receiving additional attention from 2017.

The distinction between before and after 1 January 2017 is still relevant in early 2017 as newly revised versions of normative documents are in a one-year transition period – during that year (in many cases having begun in 2016 to end a year later in 2017) both the old and new version of the standard are effective.

1. 2013–2016

1.a Certified forest management units

The FSC forest stewardship standards require forest managers to comply with all relevant legislation and to make information about their management plans and results publicly available (based on Principle 1 of FSC-STD-01-001 V4-0 EN *Principles & Criteria for Forest Stewardship*, last amended 2002). Most relevant are the following Criteria under Principle 1:

> *1.1 Forest management shall respect all national and local laws and administrative requirements.*
>
> *1.2 All applicable and legally prescribed fees, royalties, taxes and other charges shall be paid.*
>
> *1.3 In signatory countries, the provisions of all binding international agreements such as CITES [Convention on International Trade in Endangered Species of Fauna and Flora], ILO [International Labour Organization] Conventions, ITTA [International Timber Trade Agreement], and Convention on Biological Diversity, shall be respected.*
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> *---*
>
> *1.5 Forest management areas should be protected from illegal harvesting, settlement and other unauthorized activities.*

The FSC standards include requirements for management plans and reporting on harvesting practices, which include requirements for transparency.

It is the accredited certification bodies (CBs) that grant, audit, and remove forest management certificates. CBs have to audit the performance of certified companies at least once a year. FSC has adopted a special standard for CBs on control of certificate holders and how to engage stakeholders, FSC-STD-20-007 *Forest Management Evaluations* (2009),

complemented with a set of additional requirements in FSC-DIS-20-007, and FSC-STD-20-006 *Stakeholder Consultation for Forest Evaluations*.

Before a CB grants a certificate to a forest manager, it has to determine "credible assurance" that there is "no major failure in the conformity with the requirements of the applicable Forest Stewardship Standard in any FMU [forest management unit] within the scope of the certificate." The CB must, in particular:

> *a) Analyse and describe the forest area to be evaluated in terms of one or more forest management units;*
>
> *b) Confirm that there is a management system in place that is capable of ensuring that all the requirements of the specified Forest Stewardship Standard are implemented within every FMU within the scope of the evaluation;*
>
> *c) Carry out sampling of sites, documents, management records, interviews, consultation with stakeholders and direct factual observations sufficient to verify that there are no major non-conformities with the performance thresholds specified in the applicable Forest Stewardship Standard within any FMU within the scope of the evaluation.*

After the initial audit, at least one surveillance audit has to follow every year. After five years, the certificate expires and a re-evaluation audit has to be carried out.

The initial and re-evaluation audits have to include all FSC Principles and Criteria (P&C); the surveillance audits can concentrate on a relevant selection of P&C.

Observed violations of requirements result in Minor or Major Corrective Action Requests. The sanction for not correcting management practices is suspension and ultimately withdrawal of a certificate.

Transparency and stakeholder consultations are essential elements of the verification process. A sample of directly affected stakeholders need to be interviewed.

Audits have to include inspection of "a sufficient variety and number of sites within each forest management unit." The sites should be chosen based on an evaluation of the critical points of risk in the management system. A sufficiently relevant sample of documentation held by the forest manager needs to be evaluated.

One of the obligations of the CB in preparing audits is to: "identify and obtain copies of relevant national and local laws and administrative requirements which apply in the country or region in which the evaluation is to take place." The CB needs to ensure that its auditors have sufficient knowledge of the relevant legislation the certificate holder has to comply with.

As part of its response to the EU Timber Regulation (EUTR)[1], FSC launched a clarification for this Evaluation Standard, Advice Note 20-007-17 *Applicable National and Local Laws and Regulations*. This advice note describes the categories of legislation that should be considered as falling under the scope of FSC Principle 1, but also warns about the kinds of violations, including corruption and bribery, that the CB needs to be vigilant about.

In the categories "concession licenses," "harvesting permits," and "payments of royalties and harvesting fees," corruption is mentioned explicitly and examples of possible cheating are given in several other categories (see FSC-DIR-20-007, page 22).

[1] The EU Timber Regulation introduced due diligence requirements for companies bringing wood and wood products on the EU market, to avoid origin in illegal harvesting. The EUTR entered into force in March 2013.

1.b Chain of custody

Also in response to the EUTR, FSC introduced Advice Note 40-004-11 to its Chain of Custody (CoC) Standard, requiring "FSC certificate holders exporting and/or importing timber or timber products [to] have procedures in place to ensure that the commercialization of FSC certified products comply with all applicable trade and custom laws" (see FSC-DIR-40-004 *FSC Directive on Chain of Custody Certification*, page 18).

As a consequence, CBs need to verify annually whether these companies have these procedures in place and whether they are effective.

1.c Controlled wood

FSC is currently changing the controlled wood procedure. Companies can apply their own risk assessment procedure on non-verified wood. From 2017 on the risk assessments will be done for priority countries by FSC; and companies wanting to bring non-verified wood under the controlled wood category have to work with those risk assessments. In the current procedure, companies need to make an assessment of the risk that the wood violates one or more of five categories. If the risk cannot be regarded to be 'low', the company has to take action to reduce these risks or refrain from using this wood as 'controlled' (FSC-STD-40-005 V2-1 *Standard for Company Evaluation of FSC Controlled Wood*).

One of these requirements is legality. For that purpose the company needs to:

- *Identify and collect and regularly verify evidence of country and district of origin.*
- *Verify whether, in applicable cases, CITES licenses and/or export permits are present.*
- *Confirm whether the district of origin is confirmed as low risk against any of the five requirements*.

The CB needs to audit the procedure followed as well as the measures taken by the company to ensure it has sufficient expertise, and the results need to be publicly available. A complaints procedure is open for anyone who does not agree with the procedure and/or the conclusions.

One of the criteria to be applied in the risk assessment is the "perception of corruption related to the granting or issuing of harvesting permits and other areas of law enforcement related to harvesting and wood trade." FSC gives 11 examples of sources of information to be used, including the Transparency International index, nongovernmental organizations (NGOs), and official sources.

Besides those sources, FSC has also – in cooperation with NEPCon – set up a Global Forest Registry that informs about the Corruption Perception Index for each country: http://www.globalforestregistry.org/

The list of types of legislation in the Controlled Wood Standard was extended in 2013 with Advice Note 40-005-19, which is identical to Advice Note 20-007-17 (described above under 1.a), with the same warnings about corruption.

2. From 2017

In 2017, a number of important changes will be introduced in the FSC scheme. The processes started in 2015 and it will take a year or two beyond 2017 until these have penetrated the entire scheme. Concerning corruption, the following are relevant.

2.a Forest management

The new *FSC Principles & Criteria for Forest Stewardship* (FSC-STD-01-001 V5-2), approved in 2012, still have a Principle (no. 1) on legality, now called "compliance with laws" and with more detailed criteria, including:

> *1.1 The Organization shall be a legally defined entity with clear, documented and unchallenged legal registration, with written authorization from the legally competent authority for specific activities.*
>
> *1.2 The Organization shall demonstrate that the legal status of the Management Unit, including tenure and use rights, and its boundaries, are clearly defined.*
>
> *1.3 The Organization shall have legal rights to operate in the Management Unit, which fit the legal status of The Organization and of the Management Unit, and shall comply with the associated legal obligations in applicable national and local laws and regulations and administrative requirements. The legal rights shall provide for harvest of products and/or supply of ecosystem services from within the Management Unit. The Organization shall pay the legally prescribed charges associated with such rights and obligations.*
>
> *1.4 The Organization shall develop and implement measures, and/or shall engage with regulatory agencies, to systematically protect the Management Unit from unauthorized or illegal resource use, settlement and other illegal activities.*
>
> *1.5 The Organization shall comply with the applicable national laws, local laws, ratified international conventions and obligatory codes of practice, relating to the transportation and trade of forest products within and from the Management Unit, and/or up to the point of first sale.*

In addition to this, it now also has one criterion specifically about corruption:

> *1.7 The Organization shall publicize a commitment not to offer or receive bribes in money or any other form of corruption, and shall comply with anti-corruption legislation where this exists. In the absence of anti-corruption legislation, The Organization shall implement other anti-corruption measures proportionate to the scale and intensity of management activities and the risk of corruption.*

Moreover, FSC approved, in 2015, for the first time, a set of International Generic Indicators (FSC-STD-60-004 V1-0), to specify further what is required in terms of action from forest managers. National Forest Stewardship Standards will use these International Generic Indicators with the option to adopt, adapt, drop or add indicators as appropriate and relevant for the specific context of individual countries.

For the criterion on bribes and corruption, the generic indicators are:

> *1.7.1 A policy is implemented that includes a commitment not to offer or receive bribes of any description.*
>
> *1.7.2 The policy meets or exceeds related legislation.*
>
> *1.7.3 The policy is publicly available at no cost.*
>
> *1.7.4 Bribery, coercion and other acts of corruption do not occur.*
>
> *1.7.5 Corrective measures are implemented if corruption does occur.*

Obviously, it will be the obligation of the CBs to verify whether the certified entities have complied with these indicators.

Concerning the requirements for management planning and reporting, P&C V5 builds on Version 4 and indicators add detail.

2.b Chain of custody

The revised FSC CoC Standard will become effective on 1 April 2017, and Advice Note 40-004-11 has been integrated into the standard. The revised standard also includes a new clause that requires certificate holders to support transaction verification activities conducted by CBs and Accreditation Services International (ASI). This will enable FSC to further investigate and control the occurrence of false claims in the system, improving the overall reliability of the FSC CoC.

2.c Controlled wood

On 1 July 2016, the new standard on *Requirements for Sourcing FSC Controlled Wood* (FSC-STD-40-005 V3) entered into force. It includes a due diligence procedure similar to the EUTR, although it has a wider scope (legality and for more requirements) and increased transparency requirements; Advice Note 20-007-17 (mentioned above), which clarifies the types of relevant legislation, is integrated in the text. One of the main differences from version 2 is that V3 is stresses the importance of national risk assessments, which will be carried out stepwise by FSC (on the basis of FSC-PRO-60-002a *FSC National Risk Assessment Framework*). Where they exist, national risk assessments will have to be used by the company applying this standard as the basis. Where they do not exist, companies can still apply such an assessment themselves (FSC aims to phase out this option as soon as possible).

The risk assessment for the first issue, legality, includes, like before: “The perceived level of corruption related to forest activities,” and uses the same type of further advice as before (see 1.c).

The *FSC National Risk Assessment Framework* contains further detail on analysis of risk of corruption:

> *Assessment of corruption: consultation with experts … shall take place to evaluate the extent of corruption in the forestry sector in countries where the corruption perceptions index of Transparency International … is less than 50, taking into account corruption related to forestry operations. Special attention shall be given to the enforcement of laws requiring approval from public bodies, such as harvesting permits, concession licenses, custom declarations, etc., as well as laws relevant to the purchase of forest products or harvesting rights from publicly owned land.*
>
> *NOTE: For more information, please see Transparency International’s guidance on forest sector vulnerability to corruption: http://files.transparency.org/content/download/258/1036/file/2010_ForestGovernanceRiskManual_EN.pdf.*

The procedure gives guidance for each and every category of legislation.

2.d Certification bodies

As CBs play a key role in ensuring the performance of the FSC scheme, including on whether corruption is avoided, it is important that they themselves can be relied upon to be non-corrupt.

While earlier versions of the FSC Standard on *General Requirements for FSC Accredited Certification Bodies* already had a specific chapter on "impartiality," the new version, FSC-STD-20-001 V4-0, effective from 1 April 2016, includes a specific requirement:

> *1.5.12 The certification body shall have, maintain and implement a documented anti-corruption policy.*

And in clause 3.1.9, it is required that relevant personnel sign a contract or other documents by which they, among other things, commit to conform with the anti-corruption rules of the CB.

3. Since 2009

3.a Policy for Association

The *Policy for the Association of Organizations with FSC* (FSC-POL-01-004) is an expression of the values shared by organizations associated with FSC. It defines six unacceptable activities that associated organizations (i.e. certificate holders, certification bodies, and members) and their affiliated groups commit to avoid in both certified and uncertified operations. One of the unacceptable activities is: *illegal logging or trade in illegal wood or forest products*. As corruption is often a component, or root cause, of illegal logging and trade, the policy allows FSC to take measures against organizations that are involved in such activities.

The intention of this policy is to prevent FSC from being associated with organizations that are involved in unacceptable activities related to the forest sector in both their certified and uncertified operations. Organizations that want to become certified have to sign a self-declaration that they are not involved in these unacceptable activities. In case FSC is made aware of the possibility that a certificate holder is involved in an unacceptable activity (e.g. through a complaint of another stakeholder, a news article, or a report) this may lead to an investigation by an independent complaints panel that gives a recommendation to the FSC Board of Directors, which may lead to dissociation from the company.
Overall, the *Policy for Association* has a communications value perspective as intention to ban corruption in an organization associated with FSC.

References

- FSC-POL-01-004 *Policy for the Association of Organizations with FSC*
- FSC-STD-01-001 *Principles & Criteria for Forest Stewardship*
- FSC-STD-20-001 *General Requirements for FSC Accredited Certification Bodies*
- FSC-STD-20-006 *Stakeholder Consultation for Forest Evaluations*
- FSC-STD-20-007 *Forest Management Evaluations*
- FSC-STD-40-004 *Chain of Custody Certification*
- FSC-STD-40-005 V2-1 *Standard for Company Evaluation of Controlled Wood*
- FSC-STD-40-005 V3-0 *Requirements for Sourcing FSC Controlled Wood*
- FSC-STD-60-004 *International Generic Indicators*
- FSC-PRO-60-002a *FSC National Risk Assessment Framework*
- FSC-ADV-20-007-17 *Applicable National and Local Laws and Regulations*
- FSC-DIR-20-007 *FSC Directive on FSC Forest Management Evaluations*
- FSC-DIR-40-004 *FSC Directive on Chain of Custody Certification*

These normative documents can be downloaded from the FSC website:
https://ic.fsc.org/en/certification/requirements-guidance/normative-framework/policies.