



**Annex 2
SFI CHAIN-OF-CUSTODY
STANDARD AND ASSOCIATED
LABELS**

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Preface

SFI Inc. is an independent, non-profit, charitable organization dedicated to promoting sustainable forest management in North America and supporting responsible procurement globally. The SFI Board is a three chamber Board of Directors representing environmental, social and economic interests equally, and the program addresses local needs through its grassroots network of 37 SFI Implementation Committees across North America. SFI Inc. directs all elements of the SFI program including the SFI forest standard, chain-of-custody certification, *responsible fiber sourcing* requirements, labeling and marketing.

Consumers in growing numbers want assurance that their buying decisions represent a sound environmental choice. They are asking for proof that wood, paper and packaging products are made with raw materials sourced from *responsible fiber sources*. The SFI Chain-of-Custody Standard and Associated Labels, implemented together with certification to the SFI 2005-2009 Standard and the SFI Responsible Fiber Sourcing Standard and Associated Labels (Annex 1), delivers a reliable and credible mechanism so businesses can provide this assurance to customers.

Program participants practice responsible forestry on the lands they manage and, once they are successfully audited by an independent *SFI certification body*, they can make claims about SFI forest management certification and access *SFI-certified content* labels. They also need to achieve a separate third-party chain-of-custody certification.

Chain of custody is an accounting system process that tracks wood fiber through the different stages of production. Companies can make claims about how much of their product comes from certified lands, how much contains *post-consumer recycled content*, and how much is responsibly sourced fiber through unique SFI fiber sourcing certification. These claims can be made based on either the physical separation or percentage-based methods of tracking *certified forest content* and other *responsible fiber sources*.

The SFI program addresses the fact that only 10 percent of the world's forests are certified through procurement requirements in the SFI 2005-2009 Standard requiring that *program participants* establish adequate measures to ensure all the fiber they source is from legal and responsible sources, regardless of whether it is from certified or uncertified forests. The SFI program meets guidelines on environmental claims in product advertising and communication issued by the U.S. Federal Trade Commission and guidelines on environmental labeling and advertising issued by the Competition Bureau of Canada.

Studies have shown that consumers appreciate the value of forest certification in helping them identify wood and paper products from legal, responsible sources. A 2008 survey by GfK Roper Public Affairs & Media and the Yale School of Forestry and Environmental Studies found that North American consumers believe it is important or essential to have eco-labels that describe the environmental impacts caused by the manufacture, use and disposal of products. Of 10 eco-labels tested in the United States, the SFI label had the highest familiarity rating of any forest certification program.

The fact that the SFI program can deliver a steady supply of fiber from well-managed forests is especially important at a time when there is increasing demand for green building and responsible paper purchasing, and only 10 percent of the world's forests are certified. The American Consumer Council says it supports the good work of the SFI program, and applauds the positive and progressive actions it is taking. A poll by TerraChoice Environmental Marketing found that procurement specialists included the SFI label on a list of the top 10 eco-labels they relied on frequently to make buying decisions.

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Section 1: General

1.1 Scope

This standard specifies requirements for chain of custody an organization must meet if its claims and or labels referring to the *certified forest content* or the *responsible fiber sources* used in the products it sells or transfers is to be recognized as credible and reliable.

In this standard, the term organization is used to cover any entity harvesting, transporting, handling or processing forest-based products at any stage from a forest to a final consumer.

Organizations shall obtain an independent, third-party certification by an *SFI certification body* to the requirements set out in this standard if they choose to utilize an SFI chain-of-custody label or claim.

This standard specifies two optional approaches for chain of custody, namely physical separation and percentage-based methods.

This standard specifies the minimum management system requirements for the implementation and management of the chain-of-custody process. An organization's quality (ISO 9001:2000) or environmental management system (ISO 14001:2004) can be used to meet the minimum requirements for the management system defined in section 4 and to accommodate requirements for the certification process defined in sections 2 or 3.

This standard shall be used together with the requirements specifying the *origin*, which is to be verified by the chain of custody. Usage of labels and claims based on the implementation of this standard shall follow ISO 14020:2000.

The conformity assessment carried out by the third party (third-party certification) is considered as product certification and shall follow ISO/IEC Guide 65:1996.

The term "shall" is used throughout this standard to indicate those provisions that are mandatory. The term "should" is used to indicate those provisions which, although not mandatory, are expected to be adopted and implemented.

1.2 References

This standard incorporates, by dated or undated reference, provisions from other publications. These normative and informative references are cited at the appropriate places in the text and the publications are listed hereafter. For dated and undated references, the latest edition of the publication applies.

Normative References

- i. ISO/IEC Guide 65:1996 General Requirements for bodies operating product certification systems
- ii. ISO/IEC Guide 2:2004 Standardization and related activities - General vocabulary
- iii. ISO 14020:2000 Environmental labels and declarations - General principles
- iv. SFI 2005-2009 Standard
- v. Annex 1 – SFI Responsible Fiber Sourcing Standard and Associated Labels
- vi. Annex 2 – SFI Chain-of-Custody Standard and Associated Labels
- vii. Annex 3 – Rules for Use of SFI On-Product Labels and SFI Off-Product Marks

viii. Annex 4 – SFI Definitions

For the purposes of this standard, the relevant definitions given in ISO/IEC Guide 2:2004 and ISO 9000:2000 apply, together with the definitions in the SFI Definitions (Annex 4)

Informative References

- i. ISO 9000:2000 Quality management systems - Fundamentals and vocabulary
- ii. ISO 9001:2000 Quality management systems - Requirements
- iii. ISO 14001:2004 Environmental Management Systems - Specification with guidance for use
- iv. Program for the Endorsement of Forest Certification schemes (PEFC) Chain of Custody of Forest Based Products Requirements, Normative Document, Annex 4, dated June 17, 2005 including normative amendments of Oct. 27, 2006 and Oct. 5, 2007
- v. SFI Audit Procedures and Qualifications

Section 2: Requirements for Chain-of-Custody Process - Physical Separation Method

2.1 General Requirements for Physical Separation

- 2.1.1** The organization applying the physical separation method shall ensure that the *certified forest content* is separated or clearly identifiable at all stages of the production or trading process.
- 2.1.2** The organization, whose *certified forest content* is not mixed with other raw material and/or where the *certified forest content* can be identified during the whole process, should use physical separation as the preferred option.

2.2 Identification of the Origin

2.2.1 Identification at Delivery Level

The organization shall identify and verify the category of the *origin* of all procured raw material. Documents associated with the delivery of raw material shall include at least:

- (a) supplier identification,
- (b) quantity of delivery,
- (c) date of delivery / delivery period / accounting period,
- (d) Category of *origin* - (i.e. percentage from *certified forest content*, from *responsible fiber sources*, and from *post-consumer recycled content*.)
- (e) The supplier's chain-of-custody number, if applicable.

This information can be documented in the form of, but not limited to, an invoice, bill of lading, shipping document, letter, or other forms of communications between the organization and the customer.

Note 1: The categories of the *origin* of raw material are specified in the SFI Definitions (Annex 4).

Note 2: A company (e.g. printer or lumberyard) that uses the physical separation method and sources products from a supplier that uses the percentage-based method must know the percentage of *certified forest content* if it wants to label products or make claims about them.

2.2.2 Identification at Supplier Level

The organization shall ensure products meet appropriate criteria for *certified forest content*, which means it shall obtain confirmation from suppliers of *certified forest content* that the criteria have been met.

2.3 Separation of the Certified Forest Content

Certified forest content shall remain clearly identifiable throughout the whole production, trading and storage process. This shall be achieved by:

- (a) physical separation in terms of production and storage space or
- (b) physical separation in terms of time or
- (c) permanent identification of the *certified forest content*.

2.4 Sale of Certified Products

2.4.1 At the point of sale or transfer of the certified products to another entity, the organization shall provide the customer with a document verifying conformance with the chain-of-custody requirements. This can be in the form of, but not limited to, an invoice, bill of lading, shipping document, letter, or other forms of communications between the organization and the customer.

2.4.2 The organization shall ensure that documentation of the certified products clearly states at least the following information

- (a) organization's identification,
- (b) quantity of delivery,
- (c) date of delivery / delivery period / accounting period,
- (d) Category of *origin* - (i.e. percentage from *certified forest content*, from *responsible fiber sources*, and from *post-consumer recycled content*),
- (e) The organization's chain-of-custody number.

Note: The categories of the *origin* of raw material are specified in the SFI Definitions (Annex 4).

2.4.3 If the organization uses the logo or label, both on-product and off-product usage shall be carried out according to the terms and conditions of the *Office of Label Use and Licensing* and the Rules For Use of SFI On-Product Labels and SFI Off-Product Marks (Annex 3).

Section 3: Requirements for Chain-of-Custody Process – Percentage-Based Method

3.1 General Requirements for Percentage-Based Method

3.1.1 Application of Percentage-Based Method

The percentage-based method applies to organizations with facilities where *certified forest content* is mixed with non-certified forest content and the *certified forest content* cannot be clearly identified in the output products.

3.1.2 Definition of the Production Batch

3.1.2.1 The organization shall implement the requirements for the chain-of-custody process of this standard for the specific production batch.

3.1.2.2 The organization shall identify its production batch(es) based on the following criteria:

- (a) raw material included in the products covered by the production batch,
- (b) production site at which the products covered by the production batch has been produced,
- (c) time period over which the products covered by the production batch have been produced or sold/transferred.

3.1.2.3 The production batch shall be associated with (i) a single product or (ii) a group of products, which consist of the same or similar input raw material based on, for example, species, sort or substitutability within products (e.g. SPF lumber contains multiple tree species but may be treated as a single production batch).

3.1.2.4 The organization shall identify an entity within the organization for which the production batch is defined and only products produced or controlled by that entity shall be included within the production batch.

Note: the entity may be a standalone manufacturing facility, a forest contractor with multiple harvest sites, a trader or distributor with multiple suppliers, a remanufacturing facility supplied by multiple primary manufacturers or a centralized sales department within an organization with responsibility for multiple manufacturing units.

3.1.2.5 For credibility purposes of the production batch, the maximum time period is three months.

3.1.2.6 The organization shall use a batch identifier to identify all products included in the production batch covered by the chain of custody so it is possible to determine the production batch to which the products belong. The batch identifier can be a unique number or a name that all products within the production batch belong to.

Note: Physical on-product identification of the production batch is not required if the certification percentage is applied to sold or transferred products as the production batch identification is evident from the sale or delivery documents.

3.2 Identification of the Origin

3.2.1 Identification at Delivery Level

The organization shall identify and verify the category of *origin* of all procured raw material. Associated documents with delivery of raw material shall include at least:

- (a) supplier identification,
- (b) quantity of delivery,
- (c) date of delivery / delivery period / accounting period,

- (d) Category of *origin* - (i.e. what percentages is from *certified forest content*, from *responsible fiber sources*, and from *post-consumer recycled content*),
- (e) The supplier's chain-of-custody number if applicable.

This information can be documented in the form of, but not limited to, an invoice, bill of lading, shipping document, letter, or other forms of communications between the organization and the customer.

Note: The categories of the *origin* of raw material are specified in the SFI Definitions (Annex 4)

3.2.2 Identification at Supplier Level

The organization shall obtain or access confirmation for all suppliers of the *certified forest content* documentation, which proves that the criteria set for the supplier of the *certified forest content* have been met.

3.3 Calculation of the Certified Percentage

- 3.3.1 The organization shall calculate the certification percentage separately for each production batch according to the following formula:

$$P_c [\%] = \frac{V_c}{V_c + V_o} \cdot 100$$

- P_c** Certification percentage
- V_c** *Certified content*
- V_o** Other raw material (non-certified fiber and *responsible fiber source*)

Note: When making claims about *post-consumer recycled content*, the *post-consumer recycled content* can count towards *certified content* and the amount must be disclosed to the customer. However, when making claims about *certified content*, the *post-consumer recycled content* must be counted as a *neutral source*. *Neutral sources* are not counted towards or against the calculation of the *certified content* percentages in chain-of-custody tracking.

- 3.3.2 The organization shall calculate the certification percentage based on a single measurement unit used for all raw material covered by the calculation. The organization shall use only official conversion ratios and methods. If a suitable official conversion ratio does not exist, the organization shall define and use a reasonable and credible internal conversion ratio.
- 3.3.3 If the procured raw material includes only a proportion of *certified content*, then only the quantity corresponding to the actual certification percentage claimed by the supplier can enter the calculation formula as *certified content*. The rest of that raw material shall enter the calculation as other raw material.
- 3.3.4 The organization shall calculate the certification percentage either as a simple or rolling average percentage. Refer Appendix 2 of this document for the definitions of simple and rolling average calculations.
- 3.3.5 The organization applying the simple certification percentage shall base the calculation of P_c (the certification percentage) for each production batch on the

figures for V_c (*certified content*) and V_o (other raw material) for that specific production batch. As a result, it is necessary for the organization applying this method to know the percentage of *certified content* before any product of the production batch is sold or transferred.

The production batch shall not exceed three months of production.

- 3.3.6** The organization applying the rolling average certification percentage shall base the calculation of P_c (the certification percentage) for each production batch on the figures for V_c (*certified content*) and V_o (other raw material) for a specified number of prior production batches (excluding the current production batch).

The time period covered by the specified number of prior production batches shall not exceed 12 months.

3.4 Transfer of the Calculated Percentage to the Outputs

3.4.1 Average Percentage Method

The organization applying the average percentage method can label the products covered by the production batch. No minimum threshold is set to use the average percentage method, but the actual percentage of *certified forest content* must be communicated to the customer per 3.5.2.d

Note 1: If the certification percentage for the production batch is 54%, then the products covered by this production batch can be sold as a SFI chain-of-custody certified product and carry one of the two SFI on-product labels shown below. The actual percentage of *certified forest content* must be communicated to the customer per 3.5.2.d.



3.4.2 Volume Credit Method

3.4.2.1 The organization applying volume credit shall recognize volume credits in the single measurement unit used for all raw material inputs. Volume credits shall be transferred to a volume credit account based on the amount of certified raw material used in each production batch. The amount of material considered certified can be calculated by using either the simple average or rolling average method.

Note: If the certification percentage for the production batch is 54% then the amount of the output that can be sold as a SFI chain-of-custody certified product is the amount of output that would be produced by 54% of the input raw material. The label used for this method is as follows.



- 3.4.2.2 The volume credit shall be distributed to the output products from the volume credit account in a way that all products sold as certified are sold as 100% certified. The amount of volume credit required for each output unit shall be based on the specific ratio of input raw material/output product units for that specific product.
- 3.4.2.3 The organization can cumulate the volume credit by creating a credit account, which can be used for the next production batches.
- 3.4.2.4 The total quantity of credits cumulated at the credit account cannot exceed the sum of credits entered into the credit account during the last 12 months.

3.5 Sale of Products

- 3.5.1 When the organization sells or transfers the certified products, the organization shall provide customers with a document verifying conformance with the chain-of-custody requirements. This can be in the form of, but not limited to, an invoice, bill of lading, shipping document, letter, or other forms of communications between the organization and the customer.
- 3.5.2 The organization shall ensure that documentation of the certified products clearly states at least the following information:
 - (a) organization's identification,
 - (b) quantity of delivery,
 - (c) date of delivery / delivery period / accounting period
 - (d) Category of *origin* - (i.e. **Average percent users** – percentages from *certified forest content*, from *responsible fiber sources*, and from *post-consumer recycled content*. **Volume credit users** - percentage of transferred *certified forest content* per 3.4.2.2. If 100%, then the claim should be “100% certified as calculated under the volume credit method”).
 - (e) The organization's chain-of-custody number.
- 3.5.3 If the organization uses the logo, both on-product and off-product usage shall be carried out according to the terms and conditions of the *Office of Label Use and Licensing* and the Rules for Use of SFI On-Product Labels and SFI Off-Product Marks (Annex 3).

3.6 Sourcing From Outside the United States and Canada

3.6.1 Process to Avoid *Controversial Sources*

When sourcing from outside the United States and Canada, the organization shall establish adequate measures to ensure that the certified products do not include raw material from *controversial sources*. Use of controversial sources is not allowed in SFI-labeled products. The organization shall:

3.6.1.1 Require a signed self-declaration that the supplied raw material does not originate from *controversial sources*. If it has signed contracts with its suppliers, it shall include such a declaration in the contracts.

3.6.1.2 Evaluate the potential risk of procuring raw material from *controversial sources* and establish a program to check a sample of self-declarations by suppliers, using a second- or third-party verification.

Note: The potential risk evaluation carried out by the organization should be based on the regional / country level.

3.6.1.3 Ensure procurement from areas outside the United States and Canada promote the conservation of biodiversity hotspots and major tropical wilderness areas.

3.6.1.4 Develop a process with direct suppliers to promote the principles of sustainable forestry.

3.6.1.5 Ensure it knows whether direct suppliers are applying the principles of sustainable forestry.

3.6.1.6 Have a process in place to assess the risk of fiber from countries without effective social laws addressing the following:

1. workers' health and safety;
2. fair labor practices;
3. indigenous peoples' rights;
4. antidiscrimination and anti-harassment measures;
5. prevailing wages; and
6. workers' right to organize.

3.6.1.7 Program to address any significant risk identified under 3.6.1.6

3.6.1.8 See Appendix 4 of this document for SFI's Policy on Illegal Logging.

Section 4: Minimum Management System Requirements

4.1 General Requirements

The organization shall operate a management system in accordance with the following elements of this standard, which ensure correct implementation and maintenance of the chain-of-custody process. The management system shall be appropriate to the type, range and volume of work performed.

Note: An organization's quality (ISO 9001:2000) or environmental (ISO 14001:2004) management system can be used to meet the minimum requirements for the management system defined in this standard.

4.2 Responsibilities and Authorities for Chain of Custody

4.2.1 Management Responsibilities

- 4.2.1.1** The organization's top management shall define and document its commitment to implement and maintain the chain-of-custody requirements, and make this available to its personnel, suppliers, customers, and other interested parties.
- 4.2.1.2** The organization's top management shall appoint a member of the management who, irrespective of other responsibilities, shall have overall responsibility and authority for the chain of custody.
- 4.2.1.3** The organization's top management shall carry out a regular periodic review of the chain of custody and its compliance with the requirements of this standard.

4.2.2 Responsibilities and Authorities for Chain of Custody

The organization shall identify personnel performing work affecting the implementation and maintenance of the chain of custody, and establish and set responsibilities and authorities relating to the chain-of-custody process:

- (a) raw material procurement and identification of the *origin*;
- (b) product processing covering physical separation or percentage calculation and transfer into output products;
- (c) product sale and labeling;
- (d) record keeping; and
- (e) internal audits and non-conformity control.

Note: The responsibilities and authorities for the chain of custody given above can be cumulated.

4.3 Documented Procedures

The organization's procedures for the chain of custody shall be documented, and include at least the following elements:

- (a) description of the raw material flow within the production process;
- (b) organization structure, responsibilities and authorities relating to chain of custody; and
- (c) procedures for the chain-of-custody process covering all requirements of this standard.

4.4 Record Keeping

- 4.4.1** The organization shall establish and maintain records to provide evidence it has conformed with the requirements of this standard and its chain-of-custody procedures are effective and efficient. The organization shall keep at least the following:

- (a) records of all suppliers of forest-based raw material, including information to confirm requirements at the supplier level are met;
- (b) records of all purchased forest-based raw material, including information on its *origin*;
- (c) records that demonstrate how the certification percentage for each production batch was calculated;
- (d) records of all forest-based products sold and their claimed *origin*, including, as applicable, records of movements in volume credit accounts;
- (e) records of internal audits, non-conformities which occurred and corrective actions taken; and
- (f) records of top management's periodic review of compliance with chain-of-custody requirements.

4.4.2 The organization shall maintain the records for a minimum period of three years unless stated otherwise by law.

4.5 Resource Management

4.5.1 Human Resources/Personnel

The organization shall ensure that all personnel performing work affecting the implementation and maintenance of the chain of custody shall be competent on the basis of appropriate training, education, skills and experience.

4.5.2 Technical Facilities

The organization shall identify, provide and maintain the infrastructure and technical facilities needed for effective implementation and maintenance of the organization's chain of custody to meet the requirements of this standard.

4.6 Inspection and Control

4.6.1 The organization shall conduct internal audits at intervals of no more than one year covering all requirements of this standard, and establish corrective and preventive measures if required.

4.6.2 The report from the internal audit shall be reviewed by the organization's top management at least annually.

Appendix 1: Implementation of the Chain-of-Custody Standard in Multi-Site Organizations

(Normative)

Introduction

The aim of this appendix is to establish guidance to implement chain of custody in an organization with a network of sites – ensuring that the certification of the chain of custody is practical and feasible both economically and operationally, and that it provides adequate confidence that the chain-of-custody requirements are being met. A multi-site approach also allows a group of small independent companies to achieve chain-of-custody certification.

This appendix includes only requirements applicable for the multi-site organization to implement the chain-of-custody requirements of this standard.

Definitions

A multi-site organization is defined as an organization having an identified central function (normally, and hereafter referred to as a “central office”) at which certain activities are planned, controlled and managed, and a network of local offices or branches (sites) at which such activities are fully or partially carried out.

Such an organization does not need to be a unique entity, but all sites shall have a legal or contractual link with the central office and be subject to a common chain of custody, which is subject to continuous surveillance by the central office. This means that the central office has the right to implement corrective actions when needed at any site. Where applicable, this should be set out in the contract between the central office and the sites.

Examples of possible multi-site organizations are:

- (a) organizations operating with franchises;
- (b) companies with multiple branches; or
- (c) a group of legally independent companies.

Note: A group of legally independent companies means a network of typically small independent enterprises associated together for the purpose of obtaining and maintaining chain-of-custody certification for the whole group. The central office may be an appropriate trade association, or any other properly experienced legal entity that is either nominated by a group for this purpose or offers a group service. The central office can also be administered by one member of the group.

Eligibility Criteria for the Multi-Site Organization

The organization's chain of custody shall be centrally administered and be subject to central review. All the relevant sites (including the central office) shall be subject to the organization's internal audit program and shall have been audited in accordance with that program prior to the certification/registration body starting its assessment.

It shall be demonstrated that the central office has established a chain of custody in accordance with this standard and that the whole organization (including all the sites) meets the requirements of the standard.

The organization shall be able to demonstrate its ability to collect and analyze data from all sites, including the central office, and to initiate change in the chain of custody operating in any of the sites, if required.

Function and Responsibilities of the Central Office

The central office of the multi-site organization shall:

- (a) provide a commitment on behalf of the whole multi-site organization to establish and maintain a chain of custody in accordance with the requirements of this standard;
- (b) provide all the sites with information and guidance needed for effective implementation and maintenance of the chain of custody in accordance with this standard;
- (c) provide organizational or contractual connection with all sites covered by the multi-site organization, including commitments by the sites to implement and maintain the chain of custody in accordance with this standard. The contract shall also include the right of the central office to exclude any site from participation in the chain of custody in case of serious non-conformities with this standard;
- (d) keep a register of all the sites of the multi-site organization;
- (e) operate an internal audit program, and audit all the relevant sites (including its own office) in accordance with that program, prior to the independent certification or registration body starting its assessment; and
- (f) operate a review of the conformity of sites based on results of internal audits; establish corrective and preventive measures if required and evaluate the effectiveness of corrective actions taken.

Function and Responsibilities of Sites

Sites connected to a multi-site organization shall be responsible for:

- (a) implementing and maintaining the chain-of-custody requirements in accordance with this standard;
- (b) responding effectively to all requests from the central office or *SFI certification body* for relevant data, documentation or other information whether in connection with formal audits or reviews or otherwise;
- (c) providing full co-operation and assistance in respect of the satisfactory completion of internal audits, reviews, relevant routine enquiries or corrective actions; and
- (d) implementing relevant corrective and preventive actions established by the central office.

Scope of responsibilities for requirements of this standard implemented in multi-site organization

Standard requirements	Central office	Site
Section 2: Requirements for chain-of-custody process – physical separation method	Yes (defining procedures)	Yes
Section 3: Requirements for chain-of-custody process – percentage-based method	Yes (defining procedures)	Yes
Section 4: Minimum management system requirements		
4.2 Responsibilities and authorities	Yes	Yes
4.2.1 Management responsibilities	Yes	Yes
4.2.2 Responsibilities and authorities	Yes	Yes
4.3 Documented procedures	Yes (B and C)	Yes
4.4 Record keeping	Yes (D, E and F)	Yes
4.5 Resource management		
4.5.1 Human resources/personnel	Yes	Yes
4.5.2 Technical facilities		
4.6 Inspection and control	Yes	Yes

Function and Responsibilities of Central Sales Offices

Many multi-site organizations have central sales offices with sole responsibility for selling the same or similar products made by multiple facilities. In such cases, the central sales office may be defined as the “organization” for the purpose of 3.4.1 and 3.4.2.1, and may establish a procedure to calculate *certified content*. It may use either the percentage or volume credit method for its own production batch, based on the accumulated raw material inputs from a number of facilities that use the same or similar input raw material.

In the case of the average percentage method, the average percentage would apply to all products sold by the central sales office that were manufactured at the contributing facilities.

In the case of the volume credit method, the volume credit would be allocated among the products sold by the central sales office that were manufactured at the contributing facilities based on 3.4.2.2

Note: This treatment allows equitable treatment of centralized sales offices compared to third-party organizations that buy manufactured products and sell them on to customers. In other words, the treatment is essentially the same as that which would occur if each of the facilities had sold its product to a single third party maintaining its own chain-of-custody system whose business was to sort, store and distribute the products to customers. In such a case, the third party would be required to maintain its own production batches, volume credit accounts, etc. for the products it purchased. Depending on the extent to which products from different facilities are sold either separately or together by the central sales office, the preferred method of accounting for the chain of custody may be either segregation (as generally used by distributors), average percentage or volume credit method.

Outsourcing Agreements

Chain-of-custody certificate holders who outsource processing or manufacturing activities on a flexible basis to any one of a number of potential contractors may apply for inclusion of the outsourced process within the scope of their SFI Chain-of-Custody certificate. Organizations shall work with the *SFI Certification Body* to demonstrate legal ownership of all input material to be included in outsourced processing.

Appendix 2: Calculation of the Certification Percentage

(Informative)

Definition of the Production Batch

The organization shall identify production batch(es) for which the certification percentage is calculated. The production batch shall be identified for specific products or groups of products. Only products that consist of the same or similar raw material can be included in one production batch.

Table 1: Example of chain-of-custody production batch definition

Output products	Input raw material	Chain-of-custody production batch	Units for credit account
Spruce lumber A	Spruce, Pine, Fir (SPF) sawlogs	Spruce, Pine, Fir (SPF) products	Tons of Spruce, Pine, Fir (SPF) sawlogs
Pine lumber B			
Fir lumber C			
Fir/Spruce/Pine (SPF) chips			
Alder lumber A	Alder sawlogs	Alder products	Tons of Alder sawlogs
Alder lumber B			
Alder lumber C			
Alder chips			
Alder/Pine/Spruce sawdust	Alder/Spruce/Pine sawlogs	Residue products	Tons of Alder/Spruce, Pine Fir (SPF) sawlogs
Alder/Pine/Spruce bark			

Calculation of the Certification Percentage

The company can use two methods to calculate the certification percentage (simple percentage or rolling average percentage):

Simple Percentage

The certification percentage for the specific production batch is calculated from the material included in that specific production batch. As a result, the organization applying this method must know the percentage of *certified content* before any product from that production batch is sold or transferred.

Rolling Average Percentage

The rolling average percentage is obtained by using the quantity of raw material procured in the specified previous period. As a maximum, the rolling average can be applied over the last 12 months.

Example of a Three-Month Rolling Average:

The certification percentage for the production batch is calculated from volumes of certified and other raw material procured during the previous three-month period (excluding the current production batch).

Note: When the organization starts the chain of custody and the time period used in rolling average calculation is longer than the time period the chain of custody has been in place, the calculation of the rolling average is carried out from the volumes procured since the chain of custody was established. An example is given in table 2: The first rolling average (month 1) is calculated only from volumes procured in month 1, the second rolling average (month 2) is calculated only from volumes procured in months 1 and 2.

Table 2: Example of a three-month rolling average

1	2	3	4	5	6
No of the 1-month calcul. period	Volume of certified raw material procured (tonnes) *	Volume of other raw material (tonnes) *	Sum of volumes of certified raw material for previous 3 months (tonnes)	Sum of volumes of other raw material for previous 3 months (tonnes)	3-month rolling average percentage
j=i	V _c	V _o	V _c (3)	V _o (3)	P _c (3)
			$V_c(3) = \sum_{j=i}^{i-2} V_{c_j}$	$V_o(3) = \sum_{j=i}^{i-2} V_{o_j}$	$P_c = \frac{V_c(3)}{V_c(3)+V_o(3)}$
1	11	90	11	90	10.89%
2	12	90	23	180	11.33%
3	13	90	36	270	11.76%
4	14	90	39	270	12.62%
5	15	90	42	270	13.46%
6	16	90	45	270	14.29%
7	17	90	48	270	15.09%
8	18	90	51	270	15.89%
9	19	90	54	270	16.67%
10	20	90	57	270	17.43%
11	21	90	60	270	18.18%
Continues					

* The volume figures given in the table above are only examples

Example of calculation given in table 2:

- a. [column 4] Volume of certified raw material is calculated as sum of volumes of certified raw material procured in the previous 3 months.

$$V_c(3)_6 = V_{c_6} + V_{c_5} + V_{c_4}; V_c(3)_6 = 16 + 15 + 14 = \mathbf{45} \text{ [tonnes]}$$

- b. [column 5] Volume of other raw material is calculated as sum of volumes of other raw material procured in the previous 3 months.

$$V_o(3)_6 = V_{o_6} + V_{o_5} + V_{o_4}; V_o(3)_6 = 90 + 90 + 90 = \mathbf{270} \text{ [tonnes]}$$

- c. [column 6] The rolling average percentage is calculated according to the formula of chapter 3.3.1: $P_c = V_c / [V_c + V_o]$

$$P_{c_6} = 100 * V_c(3)_6 / [V_c(3)_6 + V_o(3)_6]; P_{c_6} = 100 * 45 / [45 + 270] = \mathbf{14.29 \%}$$

Note: The production batch period does not need to be equal to the calculation period as long as it does not exceed the length of the calculation period.

Volume Credit Accumulation

The organization can establish a volume credit account for the input raw material used in the specific production batch or for specific products of the production batch if 3.4.2.4 applies.

Table 3: example of volume credit accumulation (in tonnes)

1	2	3	4	5
Number of 1 month's production batch	Credit volume for the production batch	Credit account	Maximum credit account	Used credits
1		$= [3]_{i-1} - [5]_{i-1} + [2]_i$ condition: $[3]_i \leq [4]_i$	$\sum_i^{i-11} [2]$	
1	0	0	0	0
2	7.78	7.78	7.78	0
3	8.17	15.95	15.95	0
4	8.56	24.51	24.51	0
5	9.28	33.79	33.79	0
6	9.99	43.78	43.78	0
7	10.70	54.48	54.48	0
8	11.41	65.89	65.89	0
9	12.12	78.01	78.01	0
10	12.83	90.84	90.84	0
11	13.54	104.39	104.39	0
12	14.25	118.64	118.64	0
13	14.96	133.61	133.61	0
14	15.68	141.50	141.50	5
15	16.38	149.72	149.72	10
16	17.09	156.81	158.25	50
17	17.80	124.62	166.78	50
18	18.51	93.13	175.30	100

Example of calculation given in table 3 for the production batch of month 14:

- d. [column 2] Includes volume credit calculated for 1 month production batch. (Values for months 1-11 are taken from table 2).
- e. [column 3] Credit account is calculated as a result of the credit account in the previous month [column 3, month 14] minus volume credits used in the previous month [column 5, month 14] plus volume credit calculated for the current month [column 2, month 15].

$$[3]_{14} - [5]_{14} + [2]_{15} = 141.50 - 5 + 16.38 = 152.88 \text{ [tonnes]}$$

Total quantity accumulated in the credit account cannot exceed volume credits entered into the volume credit in the previous twelve months [column 4 = 149.72] (chapter 3.4.2.4)

$$152.88 > 149.72, \text{ therefore credit account is } \mathbf{149.72 \text{ [tonnes]}}$$

- f. [column 4] Maximum credit account is calculated as a sum of volume credits entered into the credit account during the last twelve months [column 2, month 4-15].

$$\begin{aligned} [4] &= [2]_4 + [2]_5 + [2]_6 + [2]_7 + [2]_8 + [2]_9 + [2]_{10} + [2]_{11} + [2]_{12} + [2]_{13} + [2]_{14} + [2]_{15} = \\ &= 8.56 + 9.28 + 9.99 + 10.70 + 11.41 + 12.12 + 12.83 + 13.54 + 14.25 + 14.96 + 15.68 + 16.38 = \\ &= \mathbf{149.72 \text{ [tonnes]}} \end{aligned}$$

Use of the Volume Credit:

The volume credit account shall be drawn down as certified sales are made. The number of volume credits removed from the account shall be based on the ratio of input/output volume for the specific products sold as certified. Table 4 shows an example of the draw down of the volume credit account for different product sales.

Table 4 – Example of draw down of the volume credit account for different product sales.

Credit account balance (raw material credits)	Product	Input/output ratio	Volume of certified sales	Reduction to credit account balance
200	A	1/1	20	20
180	B	4/1	40	160
20	C	2/1	10	20
0	-	-	-	-

Appendix 3: SFI Chain-of-Custody Certificate Requirements

(Informative)

1. **Certificate Statement:** The X company or facility has been independently certified by Y, an *SFI certification body* accredited to perform SFI program chain-of-custody audits that conform to the *SFI Chain-of-Custody Standard*.
2. **Certificate Meaning:** The certificate holder has been independently certified by an *SFI certification body* accredited to perform SFI chain-of-custody audits to the, SFI Chain-of-Custody Standard, and has received a license from the SFI *Office of Label Use and Licensing* authorizing use of the SFI service marks.

2.1 Certificate Content: All SFI chain-of-custody certificates shall have the following information, at a minimum, on the certificate:

- a. Chain-of-custody number: The numbering system will have a three-letter abbreviation of the *SFI certification body's* name, followed by "SFICOC", followed by the audit number. The audit number can be unique to the *SFI certification body*. (Example for certification body XYZ completing its 20th chain-of-custody audit: XYZ-SFICOC-0020).
- b. The SFI off-product logo service mark (see below) must be placed on the certificate.



- c. The logo of the accreditation firm (ANSI or SCC) for the *SFI certification body* conducting the chain-of-custody certification must be placed on the certificate.
3. **Eligible Entities:** Any company or facility that manufactures or distributes forest-based manufactured or printed products and wants to document that the material in the products was manufactured by a company certified to the SFI Standard is eligible to obtain an SFI Program Chain-of-Custody Certificate. (Except as provided for in Appendix 5.)
 4. **Application for SFI Label Use:** The certified company and/or the *SFI certification body* will inform the *Office of Label Use and Licensing* of a successful completion along with a copy of the chain of custody certificate

5. Issuance of License and Certificate.

- 5.1. **Issuance of License:** The *Office of Label Use and Licensing* shall issue the license to use the SFI off-product marks to the applicant upon written confirmation of successful completion of the chain-of-custody audit.
- 5.2. **Certificate:** The *SFI certification body* provides the written documentation of a successful completion of an audit.

- 6. Availability of On-Product Label.** Holders of SFI Program Chain-of-Custody Certificates may also qualify for use of an SFI on-product label and may receive authorization from the SFI *Office of Label Use and Licensing*.

Appendix 4:
SFI Policy on Illegal Logging
As Approved by the SFI Board of Directors
September 23, 2008

(Normative)

The SFI Program has strong existing measures in the SFI 2005-2009 Standard, SFI Responsible Fiber Sourcing Standard and the SFI Chain of Custody Standard to avoid illegal sources of supply. This appendix covers the issue as to whether an organization can certify one operation to SFI's Responsible Fiber Sourcing Standard (Annex 1) or SFI's Chain-of-Custody Standard (Annex 2), while another operation controlled by the company is engaged in *illegal logging*. This is an evolving issue and as international laws, regulations, agreements, treaties and definitions of *illegal logging* change, SFI Inc will review and update the language as necessary.

- (a) SFI Inc. will not license any person or entity to use SFI's trademarks or labels, and SFI may revoke any licence previously granted, if **the proposed licensee or an Affiliate of the licensee has been found to have engaged in *Illegal Logging* by a government authority in the jurisdiction where the logging occurred¹**, unless the evidence available to SFI supports a conclusion that, in the business judgment of the SFI Inc. Board, any incidents of *Illegal Logging* by the entity are followed by prompt corrective action and do not show a pattern of *Illegal Logging*.
- (b) SFI Inc. will not license any person or entity to use SFI's trademarks or labels, and SFI may revoke any licence previously granted, if **the evidence available to SFI supports a conclusion that, in the business judgment of the SFI Inc. Board, the proposed licensee or an Affiliate of the licensee has engaged in a pattern of *Illegal Logging*.²**
- (c) Any person or entity whose application for a SFI licence has been denied or whose license has been revoked pursuant to this section may reapply for a licence upon a showing that any past *Illegal Logging* has been stopped, that appropriate actions have been taken to prevent it from recurring, and that the proposed licensee and its Affiliates do not knowingly engage in *Illegal Logging*. Such showing shall be supported by a third-party audit conducted by an *SFI certification body* accredited to conduct 2005-2009 SFI Standard certifications and shall include local expertise as part of the audit team.³
- (d) As used in this section,
 - “*Illegal Logging*” means logging on land where the entity conducting the logging has no legal right to harvest.⁴
 - “Affiliate” means any person or entity that directly or indirectly controls, is controlled by, or is under common control with the proposed licensee.
 - “Control” means owning a majority of the stock, appointing a majority of the directors, or otherwise having the practical or legal power to direct the operations of a person or entity.

¹ This enables SFI to take action that is based on a government finding (conviction, court decision, regulatory decision, fine etc.) of *Illegal Logging*. SFI would not make any factual determinations of *Illegal Logging*; they would be made by the government. No audit of overseas operations is required unless and until such a finding is made.

² This enables SFI to take action against a company that is known to engage in a pattern of *Illegal Logging*, but that has NOT been subject to government enforcement actions (perhaps because the local government is corrupt or ineffective). The SFI Board would need to make the factual determinations based on the best evidence available to it. No audit of overseas operations is required unless and until such a finding is made.

³ The audit shall cover all operations in all jurisdictions where the *illegal logging* occurred.

⁴ This definition does not cover most environmental law violations. It is intended to be limited to timber theft.

Appendix 5: Criteria for the Evaluation of Chain-of-Custody Certification Standards for Use in the SFI Program

Objective

This appendix is intended to evaluate whether or not the standards have credible systems for tracking wood flows from SFI certified land bases. The intent is not to recognize or include other provisions on “controlled wood”, “good wood” or any other forest management provisions.

Criteria

1. The standard contains element, which address scope, references and definitions.
2. The standard defines minimum requirements for the management system, including:
 - management and personnel responsibilities;
 - documentation of procedures for the chain of custody process covering all requirements of the standard;
 - record keeping; and
 - internal auditing.
3. The standard contains specific requirements for each chain-of-custody method allowed under the standard (physical separation, percentage based, volume credit, batch in/batch out, procurement system), including but not limited to:
 - supplier identification/verification or *origin* of wood flows;
 - inventory control & accounting of wood flows;
 - separation of material (if necessary); and
 - calculation of the certified percentage.
4. The standard is consistent with the requirements of national and international standards and conformity assessment forums such as International Organization of Standardization (ISO) or the International Accreditation Forum.
5. The standard requires the use of certification bodies accredited by ANSI, Standards Council of Canada, or an equivalent body recognized by the International Accreditation Forum to conduct a Chain-of-Custody (CoC) Conformity Assessment based on ISO/IEC Guide 65:1996.

Appendix 6:
Challenges or Complaints Procedures for
SFI Chain-of-Custody Standard and Associated Labels (Annex 2)

Any party with information or claims about the practices of an SFI chain-of-custody holder or questions about the validity of a chain-of-custody certification may seek to have those claims investigated, as outlined below.

1. The complainant should outline their concerns in a letter to the chain-of-custody holder.
2. Within 45 days, the chain-of-custody holder shall respond to the complainant, and forward a copy of the complaint and response to its *SFI certification body*.
3. The *SFI certification body* shall investigate the validity of the complaint based on the seriousness of the claim, and respond no later than the next annual assessment.
4. If the complainant is not satisfied, they may provide the original documentation and response to the *SFI Office of Label Use and Licensing*, which shall investigate and respond within 45 days.

Upon reviewing the information, the *SFI Office of Label Use and Licensing* may

- a. seek more information from the complainant or the chain-of-custody holder before making a final determination; or
- b. find that the complaint is without merit and no further action is required; or
- c. find that corrective actions are necessary; or
- d. if the chain-of-custody holder fails to take appropriate corrective measures or if no action would be sufficient to remedy the situation, suspend the label license.