

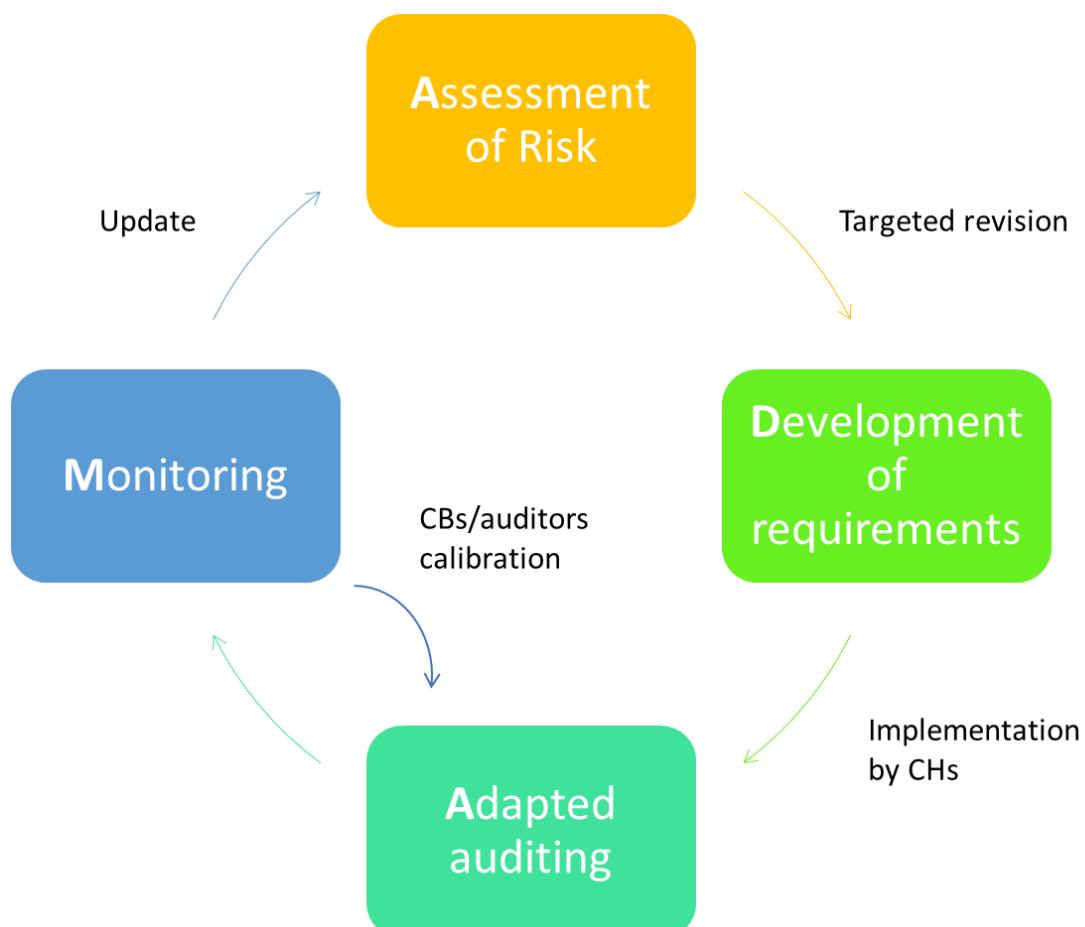


FSC® General Assembly 2017

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A Proposal for Risk-Based Approaches to FSC's National Forestry Stewardship Standards Development and Auditing Discussion paper

V1.0



1. Introduction

The FSC priority project: ‘Streamline the Normative Framework’ was initiated in early 2017 to develop and test tools that incorporate principles of risk management into the development and revision processes of normative documents. The goal of the project is to identify opportunities to make the normative framework more stable, responsive, simple, predictable, cost-effective, and outcome-oriented, thus providing confidence for applying a normative framework that is best contributing to FSC objectives and values.

Two approaches were undertaken over the first half of 2017 to explore risk management opportunities. One sub-team took a ‘step back’ to observe the opportunities to use risk management tools from a macro or system-wide perspective, while another sub-team focussed on the lessons learned from a micro or grassroots perspective.

This document investigates the second approach – lessons learned from grassroots experiences on National Forest Stewardship Standard (NFSS) development and revision processes.

A separate concept paper “A Risk-Based and Outcome-Oriented Approach to FSC’s Normative Framework” takes a system-wide perspective, looking at how a streamlined normative framework could benefit FSC. It describes tools and approaches being developed that could help FSC move in this direction, consistent with timely delivery of FSC’s Global Strategy and Implementation Plan¹.

Altogether, both concept papers represent the current work and thinking of the project team, including expert input. They are shared with participants to the General Assembly to open the discussion and gather feedback on the proposed ideas, tools and approaches.

A complete and comprehensive proposal for a risk-based approach to the NFSS and to the overall Normative Framework will be presented to the FSC Board of Directors in December 2017.

2. What is the problem? What are the opportunities?

Through years of successfully delivering certification, FSC has evolved a model based in large parts on risk elimination. As a consequence, the NFSS are perceived by many stakeholders to be overbuilt and complex, with long and costly national standard-setting processes, and perhaps some requirements not adequately matching the intended impacts. This may affect the effectiveness and accessibility of FSC’s Forest Management certification. Indeed, critiques also suggest that some requirements may not always be relevant in a given national context, achievable, or effective in improving the forest management performance of certificate holders.

Other comments suggest that some critical issues may be lost among all the requirements, which may reduce the involvement of stakeholders from all chambers in engagement processes.

The project team understands a risk¹-based approach as being mainly a tool for effectiveness. A risk-based approach could support FSC in identifying high-risk aspects

¹ The notion of risk can be defined by the probability and impact of a problem or threat. Both the probability and the seriousness of impact are influenced (reduced or increased) by many factors, from country context to organizational characteristics, from stand features to ownership or type of forest operation, etc.

As such risk can be negative as it implies a threat to FSC value, however it can also be positive in the sense that it identifies an opportunity for FSC to bring added-value to forest management.

or values by country or region and match them with adequate level of requirements and/or audit intensity and frequency. Conversely, aspects of low risk could potentially be streamlined or simplified.

Such approach could be applied across FSC national processes in:

- How we develop, manage, and maintain our NFSS;
- How we audit and ensure compliance of certificate holders and certification bodies; and
- What and how we monitor to ensure we are being effective.

3. What are we doing: gathering grassroots expertise and ideas

When looking for innovative solutions to a problem, one needs to look at those with experience. Accordingly, national Standard Development Groups (SDGs) were invited to share ideas and experiences regarding the application of risk-based approaches to NFSS development and auditing.

Thirteen countries answered the call and sent proposals ranging from ongoing and well-developed methodologies to new ideas and concepts. Some proposals focused on a specific topic with the Principles and Criteria, while other proposals addressed issues that applied across the whole NFSS, or tackled issues related to implementation and auditing requirements. These proposals (as well others external to FSC) are highlighted **in purple** in the following sections of this document.

4. The ADAM concept

Gathering all these ideas, the project team has worked to analyse the pros and cons of each approach and determine its relevance and potential for application in the FSC system as well as the changes to the normative framework it would require. The ideas and approaches were complementary, which enabled the team to regroup them into a single conceptual model named ‘ADAM’, an abbreviation for Assessment, Development, Auditing, and Monitoring (see diagram on the front page).

ADAM consists of various steps where risk management plays an essential role:

- Step 1 “Assessment of Risk” and Step 2 “Development of Requirements” are parts of the development process of the NFSS: A risk approach is used to streamline the requirements and put greater attention on areas where FSC has the opportunity to achieve the most positive impacts.
- Step 3 is related to the auditing process: Risks levels identified in the NFSS process (Step 1 and 2) are used to develop adapted auditing methods.
- Step 4 “Monitoring Effectiveness and Risk” is the continuous improvement link that closes the loop: Regular monitoring is key to ensure the effectiveness of the previous steps and take corrective actions as needed.

These four steps are described in more detail in the following sections. Several possible tools and approaches are described for each steps.

Step 1: Assessment of risk

The objective of this step is to identify and assess in the national or regional context:

- 1) Which parts of the FSC Principles and Criteria (P&Cs) have a **high**, **medium** or **low** likelihood of not being complied with;
- 2) Which are the sensitive issues² regarding forest management that cause concern to stakeholders.

The assessment will take into account each threat's characteristics (probability, seriousness of impact), as well as the different factors that can influence it.

At present, all parts of the P&Cs are treated equally in the development process of National or Regional Forest Stewardship Standards. This frequently results in long development processes and causes frustration among national stakeholders.

Ranking parts of the P&Cs in different risk categories (a combination of likelihood and impact into **high**, **medium** and **low** risk) could provide Standards Development Groups (SDGs) with a clear statement of priorities. This assessment could also help stakeholders from all chambers better understand the areas where FSC is going to bring added-value to forest management practices so they can focus their efforts during consultation and engagement processes. Finally, this could allow for strategic allocation of resources in developing requirements for these priorities (Step 2), as well as in further auditing (Step 3) and monitoring (Step 4) processes.

Which sources of information and approaches can we draw from in preparing for the risk assessment?

- Internationally recognized indices: Drawing from Controlled Wood National Risk Assessment (NRA) experience, several international indices exist that can give general information on the national context of an issue of concern. Most of these indices likely do not have the level of detail that is required for NFSS development, however, they can be helpful in understanding the national context, and position it in relation to neighbouring countries and at regional level. **Control Wood NRA, even though developed for other purposes, could presumably also serve this purpose.**
- Corrective Action Requests (CARs) analysis: a number of FSC National Offices and other stakeholders have already conducted **CARs analysis (e.g. Russia, Germany, UK, USA, Canada, CIRAD in Brazil, ASI, etc.)** as a mean to evaluate the NFSS effectiveness and compliance. These experiences can be summarized to provide guidance on how to conduct such CAR analysis, what kind of results can be expected and what conclusions can be drawn.
- Undetected non-compliances analysis: There are perhaps at least two ways to achieve these, a combination of which could be trialed. One is triangulation between different auditors and CBs, each assessing the same certificate holder (CH). The extent of difference between different audits of the same CH could inform the extent to which

² Regardless of how they are addressed within the P&Cs or not, these issues represent either an opportunity for FSC to generate a positive impact or a threat to FSC's credibility if not addressed or explained properly. As an example, even though not specifically addressed in FSC's P&Cs, the size of clear-cuts represents a sensitive issue for many stakeholders in Europe.

audits are missing NCs. A study of ‘within audit’ detection of NCs could also be conducted. If all detected NCs are identified within the first half of an audit, then it is more likely that all present NCs have been detected. If, however, NCs are still being detected right to the end of an audit, then one may surmise that further NCs exist that have not been detected through lack of time. A mapping of NC detection time against number of NCs could inform this analysis.

- Legislation gap analysis: The content of national legislation – and therefore its overlap with FSC P&Cs – varies between countries. Levels of law enforcement can also be analysed to identify potential redundancies as well as added value brought by FSC certification, which could be translated in risk levels of non-conformity to FSC P&Cs. **FSC UK** is running a Case Study to identify a possible methodology for this kind of analysis.
- Assessment of the risk of impact of management activities on values: A Case Study has been developed by the South African SDG using a standardized risk model to assess risk of impact to environmental values outlined in P6 and P9 and some social values. Based on description of the forest management system (plantation), regional context and values the model ranks the likelihood and severity impact to a value. The assessment is done at a sub-regional level.
- Smallholders, communities and other specific land tenure: For a specific issue, the level of risk can also vary with the FMU size and/or land tenure, particularly as it reflects specific management and harvest patterns and behaviours. **In the USA, the Appalachian Woodland Alliance has developed an approach which allows for identification of key and low risk issues for smallholders under 60 ha.**
- Stakeholder engagement: Meaningful engagement with all stakeholders have always been a force within the FSC system. FSC requirements already provide a range of possible ways to engage with key stakeholders during the NFSS development process, (e.g. the Consultative Forum and public consultations). **Australian’s SDG proposes to engage stakeholders first at a strategic level – before consulting a detailed IGIs/Indicators level – to better identify where risks and opportunities lie for the national process.**
- Regional assessment: The sensitivity of some issues may vary from one country to another in a defined region. However, market competitiveness as well as public credibility lead to a degree of inter-connexion of sensitive issues at regional level. The regional context tends then to influence the risk level of specific national issues. **FSC Brazil** is leading regional work for IFL indicators and their definition and FSC Germany has put forward proposal for harmonization between countries in Europe.

Step 2: Development of national/regional FSC requirements

The objective of this step is to streamline requirements, calibrating them according to the identified risk category. For parts of the P&Cs that are identified as **high risk** in the national or regional context, the number, level (including thresholds) and/or detail of requirements might exceed the IGIs. Conversely more generic requirements (instead of SMART indicators) could be allowed for **low risk** designation.

Additionally, for **high risk issues**, defining a clear vision for success and ways to measure it are essential in guiding the development of requirements, as well as evaluating their effectiveness over time.

At present, the IGIs represent a starting point for national indicators development and any adaptation or deviation must be strongly justified. This results in very long national standards containing unnecessary requirements from some users' perspective. Important requirements in the national context do not stand out, and from affected and concerned stakeholders' perspective it may seem that those requirements are not given enough prominence.

The calibration of requirements to identified risk categories may enable certificate holders (CHs) to focus their efforts on areas of greater opportunity to achieve positive impacts in responsible forest management in the national or regional context. From the perspective of candidates for FM certification, the NFSS would be clearer and emphasize the value-added aspects of the Standard, which could increase certification uptake. From other stakeholders' perspectives it could also clarify what are the positive impacts of FSC certification, and motivate greater participation in consultation and engagement processes.

What tools and approaches might we use?

- **Defining key and critical indicators:** Through the Credibility Project, FSC Russia has led the identification of key indicators – which have a **high impact** on FSC system, as well as environmental and social values – and critical indicators – which correspond to sensitive issues that concentrate the complaints of stakeholders. This selection helped to coordinate efforts for auditing compliance and monitoring effectiveness (see Steps 3 and 4).
- **Clear interpretations and implementation guidance:** NFSS normative structure and articulation is not necessarily the most efficient in ensuring full comprehension and correct implementation of requirements by CHs. FSC France has developed an implementation guide that breaks down the requirements into the structure of management plan development and implementation process. Likewise, clear interpretations and guidance should be produced from a user's perspective.
- **Requirements with a staged implementation / progressive approach:** This could be proposed when the vision for success for **high likelihood and/or high impact** issues is beyond the possibility for immediate (initial audit) compliance by CHs. Looking outside of FSC, several other schemes – e.g. the Sustainable Agriculture Network (SAN), the Marine Stewardship Council (MSC), the Marine Ingredient Organisation (IFFO) – have developed a staged approach for parts of their standards. Understanding the challenges those schemes are facing, as well as fundamental particularities of forestry processes, ways to deal with audit implications in a credible manner could be investigated.
- **Stakeholder engagement:** As in the assessment phase, stakeholders' engagement is key to the development of credible requirements. Key stakeholders need to be identified and engaged efficiently for each **high likelihood and/or high impact** issue, both by SDGs when developing the requirements as well as by CHs when evaluating the implementation of the requirements. Better guidance on stakeholders' engagement could be produced.
- **Change protocol – ‘Ensuring change is for the better’:** The other sub-team of the project has developed a protocol to guide decision making on important changes in FSC requirements. This protocol is described in the concept paper “A Risk-Based and Outcome-Oriented Approach to FSC’s Normative Framework.”
- **Role of FSC beyond certification:** Certification might in some cases not be a sufficient tool to tackle **high likelihood and/or high impact** issues in a satisfactory way. Sometimes

the vision for success requires actions that might exceed the normal sphere of influence or responsibility of forest managers. This is where FSC needs to develop as a dialogue platform as well as increase its lobbying and collaboration with governments and/or industries to move critical issues forward at a higher level of discussion and treatment.

- Understanding the level of allowance for differences between NFSS: The impact of regional assessment on the risk level and subsequent requirement development might, in some cases, lead to a need for harmonization of requirements between countries. However, in other cases the differences in treatment might need to be acknowledged and understood as reflecting national realities. The definition of the tolerance level for such differences is a political process that should be duly informed by technical expertise. The Forest Network, comprised of FSC Forest Officers of North America, Europe and CIS³ countries has among its mandate to provide such expertise.

Step 3: Adapted auditing processes

The objective of this step is to adapt the auditing processes to the streamlined requirements developed in the previous steps using the identified risk categories (**high**, **medium** or **low**). Certification bodies (CBs) could then spend more effort and intensity on requirements defined for **high likelihood and high impact issues** of the NFSS than those that are identified as **low risk**. The risk assessment done at the national level could also potentially be refined by the CBs according to CHs and local context characteristics. This step includes a focus on CBs and auditors' calibration through collaboration with FSC National Offices and Accreditation Services International (ASI), in order to ensure effective and consistent implementation of requirements.

At present the audit intensity and frequency is the same for each requirement, regardless of the probability and seriousness of impact of potential non-compliance. This could lead CBs and their auditors to spend comparatively too little time on areas of the NFSS where risk of non-compliance is high because they also have to audit low risk areas. In practice, CBs do conduct audits with some degree of risk-based approach. This is however not clearly backed-up in related FSC standards.

There exist opportunities to increase efficiency by matching auditing processes to the identified risk categories, with increased assurance of compliance as well as the potential reduction of audit costs. Higher levels of national collaboration with ASI and CBs could also ensure calibrated implementation and increase FSC's credibility among stakeholders.

What tools and approaches might we use?

- Matching audit frequency and intensity with risk category: Intensity and frequency could be increased for the requirements relative to high risk and sensitive issue, ensuring high level of compliance for these issues. Conversely, requirements for low risk issues could be audited less frequently (e.g. only during initial audit). The Aquaculture Stewardship Council (ASC) has developed a "site sample size calculator" for multi-sites clients that could serve as input for this approach.

³ The Commonwealth of Independent States is a confederation of 9 members located in Eurasia, like e.g. Russia and Belarus.

- 'Minimum random' audit: While much of audit intensity and frequency can be directed by risk category, at least a fraction could still be randomly determined. That way no CH can be confident of deliberately ignoring any part of the P&C that they might otherwise know was not going to be audited.
- Silencing low risk requirements: Considered a priori fulfilled, the requirement would be audited only if the auditor/CBs has reasonable doubt/evidence that it could not be the case (based on public reports, complaints or evidences from other requirements gathered during the audit). **FSC US has attempted to implement such an approach for SLIMF indicators and lessons can be learned from their experience.**
- Exclude low risk requirements from the audit checklist: This more radical option needs to be evaluated against potential impact to brand credibility. In any case it may not be made available for low risk requirements regarding legislation, as it might cause non-conformities between FSC scheme and legality schemes (e.g. EUTR, Legacy Act, etc.).
- Coordination and calibration with CBs and ASI: National and Regional FSC Offices often lack clear guidance and formal role to participate effectively to this essential task. However, through the Credibility Project, FSC Russia has proven that the coordination role of the FSC National and/Regional Office is key to ensure a calibrated interpretation and implementation of the requirements related to **high risk issues** (see key and critical indicators in Step 2). Guidance and best practice could be developed.

Step 4: Monitoring Effectiveness and Risk

This step is essential to ensure the quality of the ADAM concept and has several objectives. Changes to the national context must be monitored to identify any need for changes to the risk assessment (likelihood and/or impact). Compliance data (CARs and other feedbacks from audit) can also provide evidence for the need to change the risk category for certain requirements of the NFSS. Finally, the effectiveness of the requirements in achieving the desired outcome must be evaluated.

At present, FSC has no clear baseline data nor monitoring system in place to efficiently evaluate compliance with and effectiveness of the NFSS. Important information may therefore not be gathered or get lost through staff rotation. The 5-years full revisions of NFSS may therefore be conducted without enough information to ensure continuous improvement of the FSC standards. This full revision is sometimes not even implemented in due time because of the complexity of the process.

With this process, FSC Offices and SDGs would be able to take corrective actions when needed and call for targeted revisions of NFSS, instead of following the theoretical cycle of full review every 5 years. This would result in more stable, predictive as well as reactive NFSS, enhancing the credibility of FSC;

What tools and approaches can we use?

- Evaluating the effectiveness of FSC requirements: The evaluation of the effectiveness of FSC requirement to achieve the identified vision for success is key to FSC having a positive impact and robust credibility, especially regarding **high likelihood and impact** issues. Sources of information could include:
 - CHs monitoring data – extract from P8 requirements;
 - Annual meetings with CHs;

- Stakeholder feedback including complaints;
 - National best practice and scientific studies, trend data;
 - FSC led studies, for example Forest Network and/or benchmarking of specific issues. For example, FSC Sweden has created a methodology for benchmarking impact of FSC requirements with comparison against national requirements for Principle 6. To date, studies have been conducted for Finland, Sweden, Estonia and Latvia;
 - CBs and ASI feedback, including analysis of CARs and corresponding measures taken.
- Monitoring the relevancy of the country risk assessment: This would be necessary to evaluate whether there is continuous justification to maintain risk categories for identified issues. When not, SDGs could decide to course correct and plan for targeted revisions.
 - Evaluating the compliance of CHs and performance of CBs: The objective of this approach would be to provide input for auditors/CB calibration, and could be done using the following tools.
 - CARs analysis;
 - ASI audit reports and coordination;
 - Complaints analysis;
 - National and Regional Offices (NOs and ROs) to participate as observers in audits;
 - Annual meetings with CHs and CBs (separately).

5. Outstanding questions or risks associated with ADAM concept

Tolerance to risk approach:

1. What would be the tolerance for differences between countries and regions without undermining FSC credibility?
2. How to support countries that could end up with many high risk elements in their NFSS? This is especially important if countries with more high risk elements are essential to the fulfilment of FSC mission (e.g. tropical areas).

Responsibility and capacity:

3. Some of the tools and approaches described here could be applied at different responsibility levels, i.e. FSC International, National Offices/SDGs, CBs and/or CHs. When choosing the level at which they are applied, how do we balance efficiency with responsibility towards potential impacts to FSC system?
4. What would be the impact to SDGs/NOs/ROs capacity in order to allow them to incorporate increased responsibilities in risk assessment, management and monitoring?

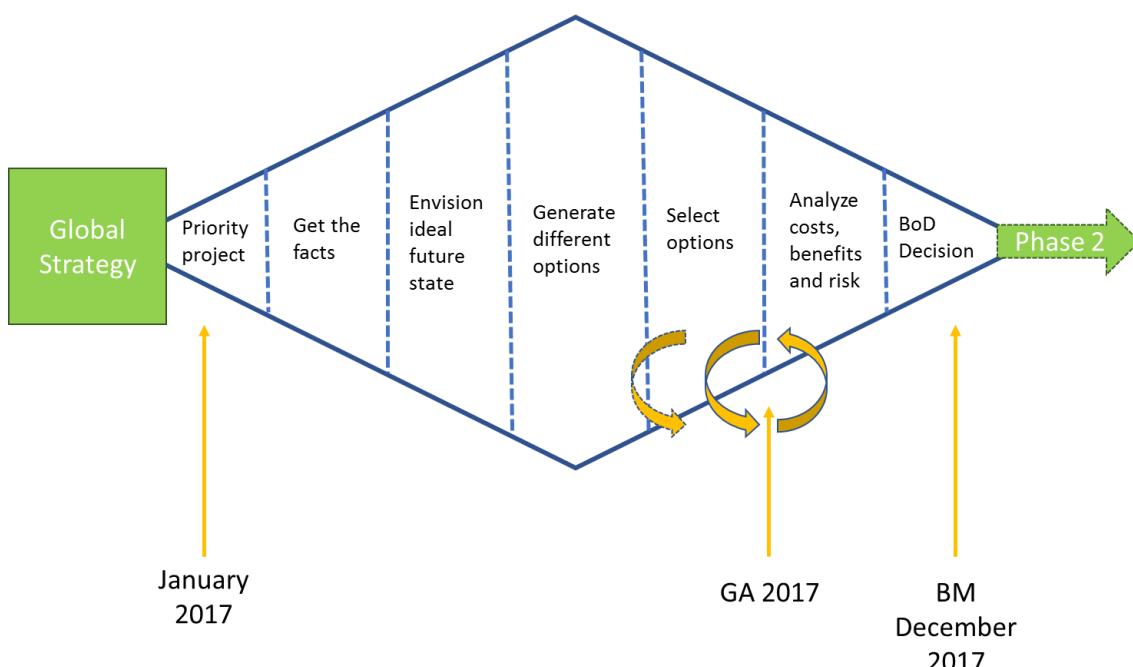
Alternatives:

5. Is this concept/proposal a good answer to enable FSC to reach our development goals while maintaining our credibility levels?
6. Despite the potential challenges are there better alternatives and is the 'do nothing' option viable?

6. Workplan outline

The project was initiated in early 2017 and is divided into two phases.

Phase 1 (2017 – see diagram below) will deliver a set of risk management tools that will help identify and analyse problems, risks, and emerging solutions. It will also deliver a plan for how to apply these to the NFSS. During phase 1 the initial focus will be on approaches to streamline forest management certification system, however the project will also consider the needs for risk tools across the normative framework.



Phase 2 (2018-2019) will focus on how to test and apply the risk management tools to the normative framework. Further testing may also be necessary to finalize the risk-based approaches to be applied to the NFSS. Supporting documents will be developed to facilitate the application of the tools. During this phase targeted stakeholder consultation is foreseen to inform the development of the risk policy.

Availability of further information

For further information on this workstream, please contact: Guillaume Dahringer at guillaume.dahringer@fsc-france.fr

ⁱThis work directly supports the first two Critical Result Areas of the Global Strategic Plan 2015–2020

- ✓ Critical Result Area 1.1 - Streamline the normative framework: '*FSC will improve certification uptake, cost-effectiveness and outcomes by stabilizing and simplifying FSC policies, standards and procedures while maintaining system integrity, transparency, and credibility*'.
- ✓ Critical result area 1.2 – Increase quality and consistency in practice: '*FSC will improve certification processes to increase the quality and consistency of the application of standards and policies, both internally and via accredited certification assessment bodies*'.