

# POLICY FOR ASSOCIATION VERSION 3:

## *Changes introduced in the FSC system*

The purpose of this booklet is to provide explanations and background information on the changes that are being introduced by FSC through the updated Policy for Association, version 3.

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# Introduction

The Policy for Association (PfA) is an **expression of the values shared** by individuals and organizations associated with FSC. It defines **six destructive activities** which are unacceptable to FSC. All associated individuals and organizations – and their corporate group – commit to avoid taking part in any unacceptable activity, in both certified and non-certified operations when entering the FSC system.

FSC is pleased to introduce the updated Policy for Association, version 3 (PfA V3), which has been approved by the FSC International Board of Directors. It will become **effective from 1 January 2023**.

## Six unacceptable activities



**Illegal harvesting** or **illegal trade** in forest products



Violation of **workers' rights** and **principles** defined in the **ILO Declaration** on Fundamental Principles and Rights at Work within the forestry or forest products sector



Violation of **customary** or **human rights** within the forestry or forest products sector



Destruction of **High Conservation Values** in forests or High Conservation Value areas



**Conversion** of natural forest cover



Use of **genetically modified organisms** in forestry operations for any other purposes than research

## Which policy version applies when...

FSC will consider the time of unacceptable activities in determining which policy version is used as point of reference.

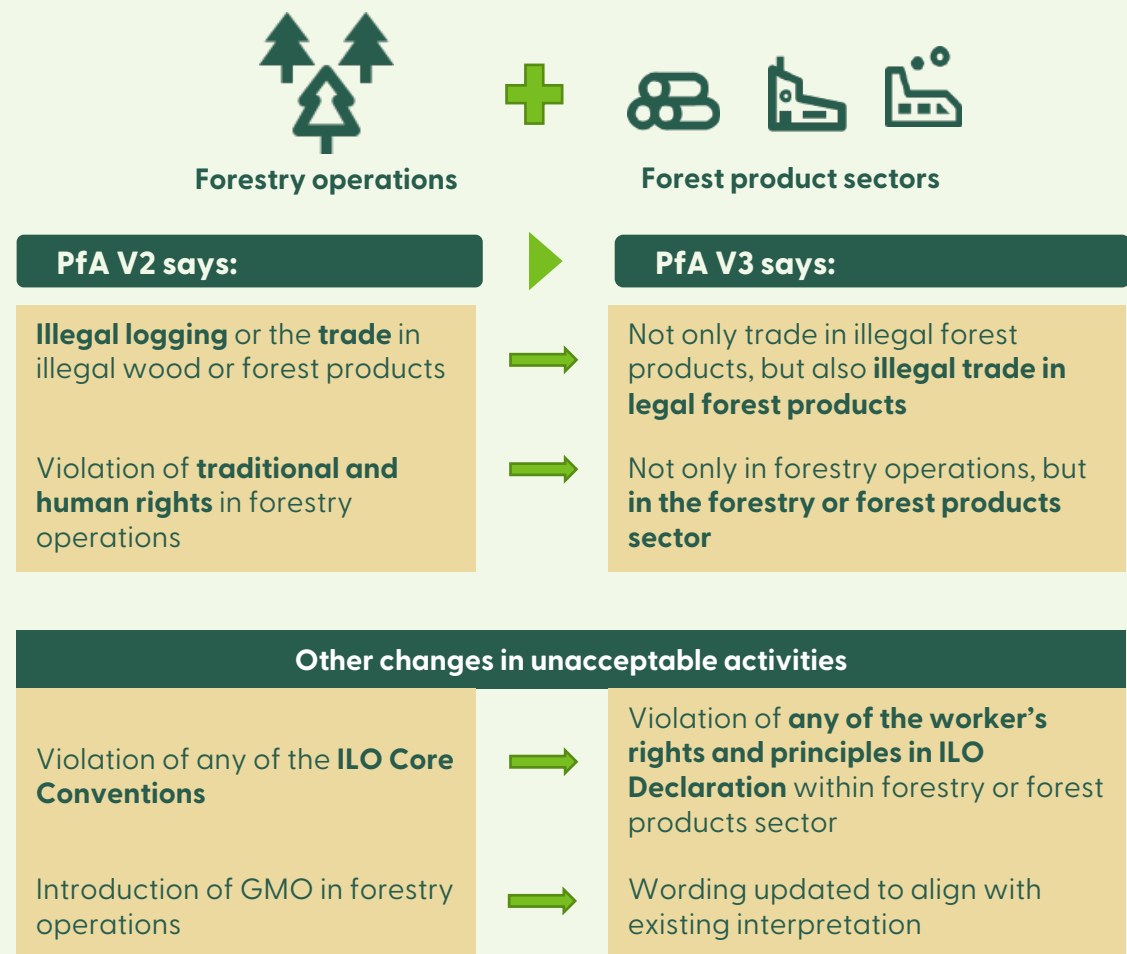


## Effects of PfA V3 on the FSC system

- Larger range of organizations covered, which will further protect FSC's reputation. Aligned with Accountability Framework Initiative's (AFi) definition.
- Wider range of activities of corporate groups covered across the forest product supply chain.
- Conversion that was not previously detectable as a violation of the PfA will be considered unacceptable.
- Earlier detection of organizations not committed to FSC values, thereby strengthening FSC's ability to protect its reputation.

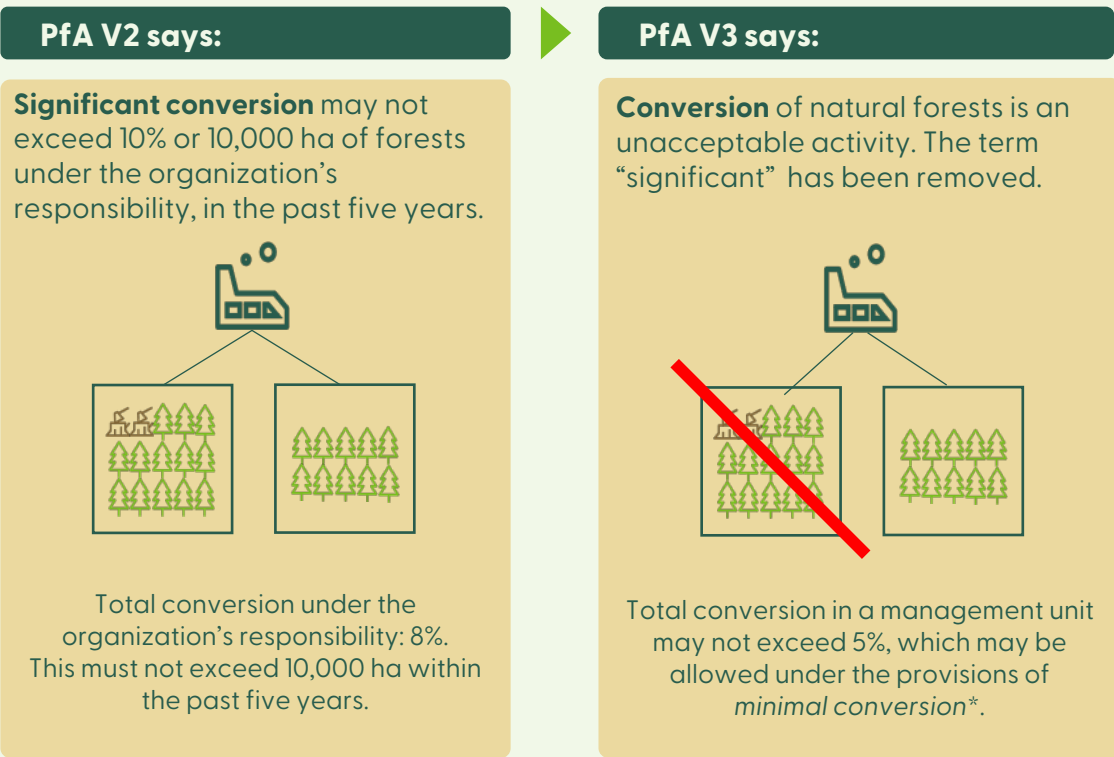
# Scope of application

The scope of unacceptable activities, which focuses on forestry operations in the previous version (PfA V2), has been widened to include forest product sectors.



# Understanding of Conversion aligned with FSC's position

The unacceptable activity of conversion of natural forests has been aligned with FSC's approach on addressing forest conversion.



\*According to FSC's normative framework, up to 5% of conversion is allowed if there is demonstrated social and environmental benefits.

# Corporate groups: Revising the scope of responsibility

## Why has FSC decided to revise the scope of responsibility?

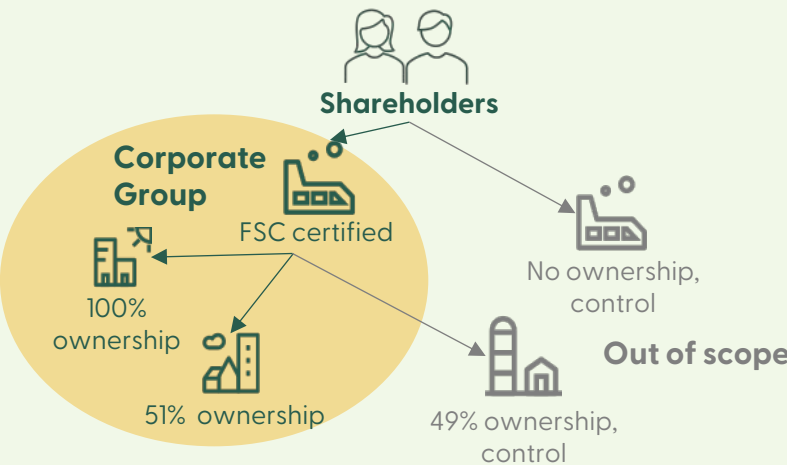
Corporate groups often comprise multiple legal entities. In the past, FSC only considered organizations connected by **same ownership** as part of the same corporate group. With the new PfA, FSC sets out to significantly broaden this definition.

With the new PfA, **connection by control** will be the main perspective when determining a corporate group. Control includes but is not limited to ownership. In this way, the revised PfA also attempts to prevent organizations from circumventing FSC’s guidelines by simply changing the ownership of legal entities.

Please note that for the examination of past activities, FSC will always consider the definitions which were valid at the time of the incident under investigation.

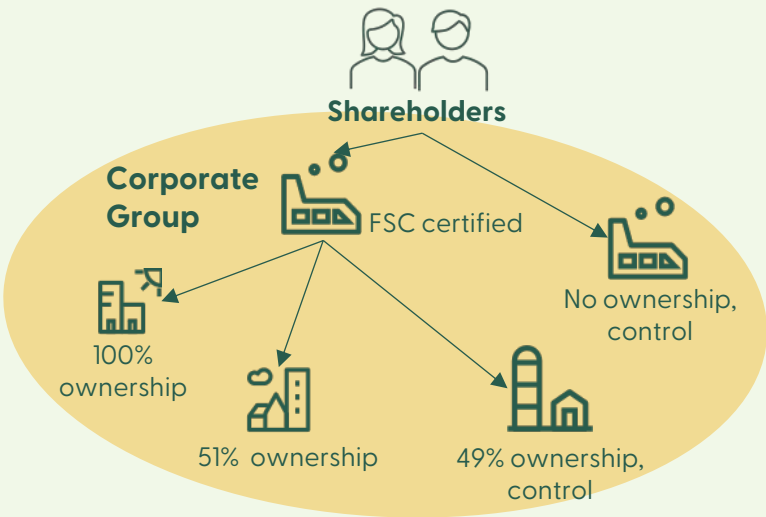
### PfA V2 says:

In the current PfA, a corporate group is defined as **organizations connected by majority ownership**. The PfA differentiates between **direct and indirect involvement**.



### PfA V3 says:

With the new PfA, a corporate group will be defined as the **totality of entities** to which an associated organization is **connected by control**. The definition of control includes but is not limited to ownership.



# Different scenarios of ownership and control

The PfA applies to associated individuals and organizations as well as the corporate group they belong to. By redefining the definition of corporate control, it is likely that more organizations will fall under the scope of the PfA. Control means the possession of power to direct, restrict, regulate, govern, or administer the performance of another company through authority, rights, contracts, or other means. This means that while majority ownership always implies control, the definition of control is not limited to that. On the right side of this page, you find **various scenarios of control** as examples.

## Example of managerial control within a corporate group

Company A holds multiple FSC certificates, and Company B does not have any FSC certificates. The owner of Company A sits on the board of Company B. She holds voting power of 20% and sets the performance benchmarks for the management of Company B.

If Company B is found to have been engaged in an unacceptable activity, then an investigation would be triggered to determine whether Company A had managerial control over the actions of Company B and whether they would be considered to be part of the same corporate group. If yes, the unacceptable activities of Company B constitute a violation of FSC Policy for Association.

### Formality of relationship



Is there formal ownership?

### Declared as a group



Has the group publicly declared the companies as linked?

### Family control



Are the companies owned or run by members of the same family?

### Financial control



Are there arrangements that one party controls the performance of the other?

### Management control



Is there extensive overlap in officials between companies?

### Operational control



Are landholdings under a group's operational control?

### Beneficial ownership



Is ultimate ownership hidden in offshore companies or by use of nominees?

### Shared resources



Do companies share an address, land, relevant assets, functions or services?

# Introduction of screening process

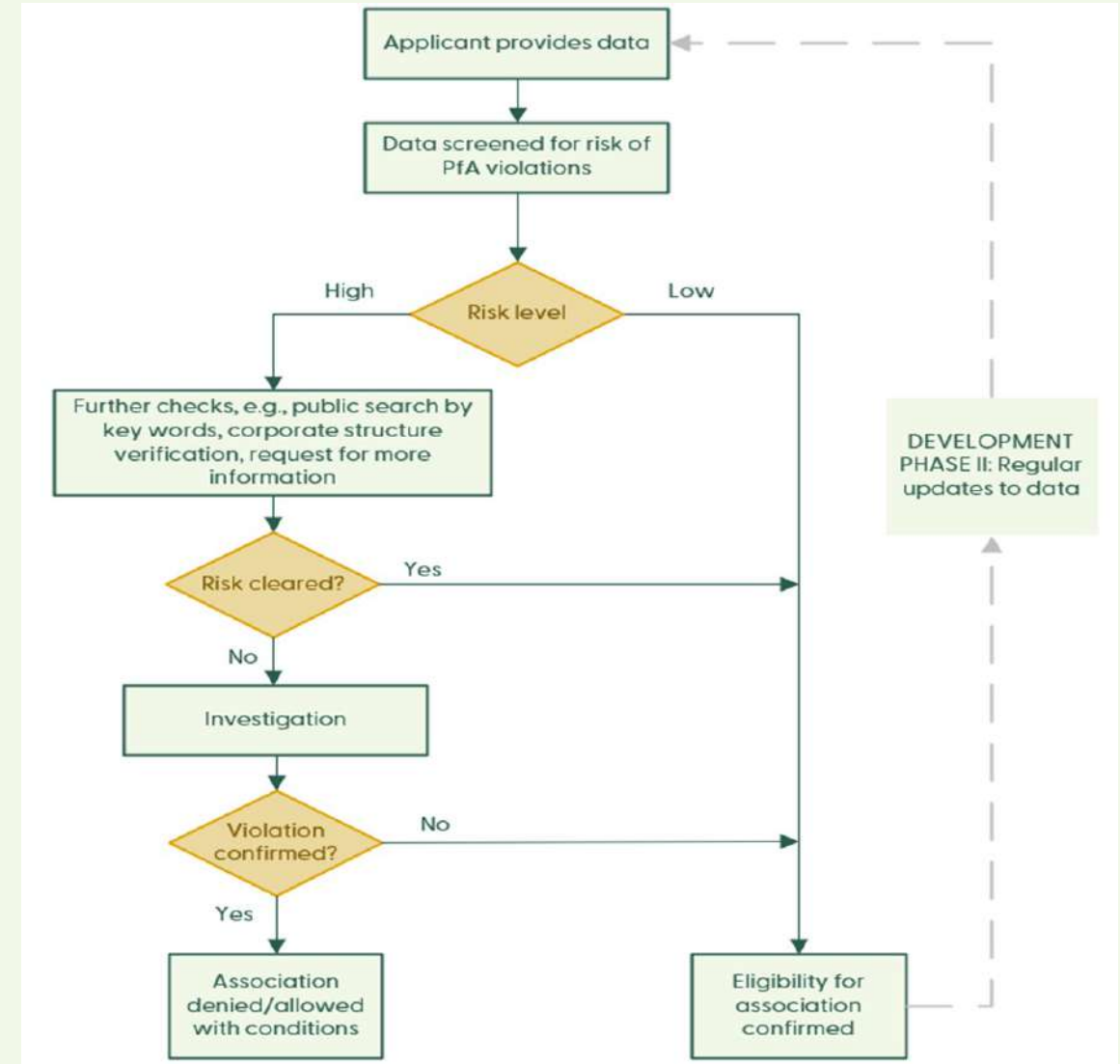
FSC is introducing new information disclosure requirements and a screening process through the **Procedure for Disclosure** for organizations associated with FSC, which will become **effective in the latter part of 2023**.

It will be implemented in two phases:

- **First phase** – new organizations joining the FSC system
- **Second phase** – all associated organizations will be required to update information

## Main features:

- Organizations will be required to **provide information to FSC** about corporate structure, areas of operation, status and history of association with FSC, etc.
  - If something is missing, or not correct, they will not be allowed to enter the FSC system.
- FSC is developing an automated information technology tool for the collection, analysis of data provided by organizations. FSC will use **risk management systems to screen** organizations based on this data.
- The screening **process will be quick**, and enable certification processes to proceed smoothly for most organizations.
- The level and detail of information gathered will be adjusted based on the risk levels determined from the screening process.





# Thank you

For more information, click [here](#).



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