



**Processing Industry
Verification of Legal Origin/Verification of Legal
Compliance**

Guide to Services

SmartWood Program of the Rainforest Alliance

Version: 03 February 2010

Copyright © 2010 Rainforest Alliance. All rights reserved.

This Guide or any part thereof may not be copied or reproduced in any fashion without the written consent of Rainforest Alliance.

Introduction

The purpose of the *SmartWood Processing Industry verification of Legal Origin/Verification of Legal Compliance Guide to Service* is to provide an overview of the verification services offered and guidance on the relevant procedures. It is aimed at organizations in the wood products processing and trade industry and can include saw mills, molding facilities, traders and wholesalers.

Background to Legality Verification

The persistence of illegal logging throughout the world's forests is undermining initiatives positioned to promote social equity, environmental conservation, sustainable forest management, and sustainable economic growth in many nations. At a global level, conservative estimates are that 10% of industrial round wood production is of questionable legality and in some countries illegally harvested timber may exceed that of legally harvested. In developing countries alone, illegal logging results in losses in assets and revenue in excess of US\$10 to 15 billion annually. The social impact of illegal logging is significant, contributing to poverty, resource inequity and negatively affecting rural livelihoods by jeopardizing the natural resources that many people rely on. In addition, many important global markets, such as the EU and USA, have mechanisms in place to stop non-verified wood from entering the market such as the Lacey Act and new proposal for EU regulations.

Rainforest Alliance

The Rainforest Alliance works in over 60 countries, helping forest organizations, farmers and communities to conserve the resources on which we all depend. The SmartWood program under the Rainforest Alliance pioneered global forest management and with growing consumer demand for sustainably and legally harvested wood products, hundreds of forestry organizations around the world are enjoying the benefits of the Rainforest Alliance's forest certification and verification services.

SmartWood legality verification services ensure that consistent, rigorous and transparent procedures are followed in conducting assessments and audits. SmartWood upholds the highest standards for ethical, professional, and fair verification. SmartWood verification services are supporting clients in meeting requirements for due diligence required by US and EU markets.

The SmartWood legality verification services include two standards: Verification of Legal Origin (VLO) and Verification of Legal Compliance (VLC).

Verification of Legal Origin

The Verification of Legal Origin (VLO) focuses on the possession of mandatory approvals, permits, and documents required by the specific permitting framework of the country involved.

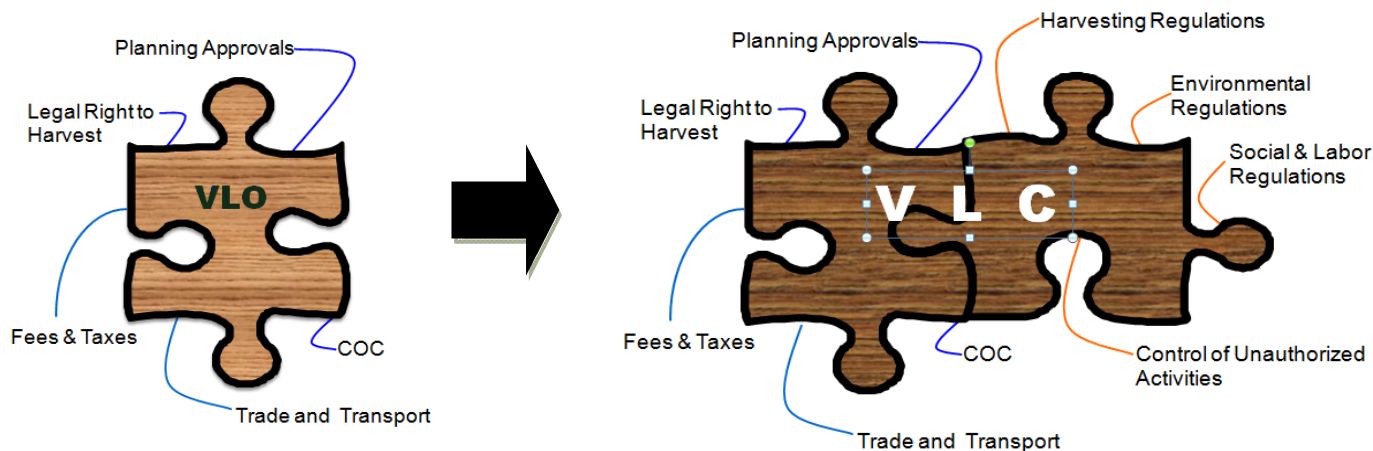
Verification of legal origin require timber producers to demonstrate that they have: (i) the legal right to harvest in the forest management unit and that authorization has been granted from the resource owner(s); (ii) all required planning approvals in place; and, (iii) paid all the necessary fees, royalties, taxes and other charges to the appropriate authority. In addition, organizations verified must have in place a robust Chain of Custody system to allow tracking of material back to a verified source of timber.

The VLO standard is comprised of 4 principles in addition to a CoC principle. However processing industry is required only to conform to Principle 4 and the CoC principle.

Verification of Legal Compliance

Verified Legal Compliance (VLC) expands upon the basic component of legal origin and encompasses the totality of laws relating to environmental protection, wildlife, water and soil conservation, harvesting rules and practices, worker health and safety, and fairness to communities.

The VLC standard contains 8 principles, the same 4 as VLO plus 4 additional as well as a CoC principle. However processing industry is required only to conform to Principle 4 and the CoC principle.



The Link between Legality Verification and Certification

Even though verification is distinct from FSC certification, SmartWood views legality verification as part of a step-wise progression to certification. Therefore, SmartWood will require that verified organizations undertake activities to ensure a supply of FSC wood.

The Scope of Verification

Verification of legality of wood and wood products may take place at the level of individual forests which may include one or more FMUs.

Assessment Process

Step 1. *Submission of Application.* All potential clients are to complete the SmartWood Verification application. The application provides SmartWood with necessary information for planning the assessment.

Step 2. *Screening.* Based on the information submitted, SmartWood will ascertain the scope of the evaluation, potential risks (based on complexity of operation and level of illegal logging occurring in the host country), level of effort to complete the evaluation and ensure that the SmartWood has the capacity to undertake the evaluation (geographic coverage, required auditors, language skills etc). SmartWood will then develop a proposal and budget for conducting either a pre-assessment or a full verification assessment. A pre-assessment is recommended in case of large scale operations with very complex supply chains.

Step 3. *Service Agreement.* SmartWood and the client will mutually agree on the final plan for the field assessment, the assessment team, and the budget. Once this is done a Service Agreement is signed marking the formal start of the assessment process.

Step 4. *Assessment Planning.* During the planning phase of the assessment it is important that the full scope of the verification is identified by the client.

Step 5. *Onsite Assessment.* The assessment will include onsite visit by SmartWood auditors to all (or a sample of) sites included in the scope of the verification. organizations. The audit team will evaluate conformance with all applicable criteria in the VLO or VLC SmartWood checklists.

Step 6. *Gathering Evidence.* During the evaluation process the primary responsibility of audit team is to evaluate whether the wood supply of the organization is under evaluation originating from legality verified source of wood and that chain of custody requirements are met. For processing industry the emphasis is on evaluating that a robust chain of custody is in place to ensure that when verified material enters the facility it is traceable through to the final product.

Step 7. *Determining Conformance.* Non conformance can arise from a required system not being in place, or where practice is different from the defined system. Non conformance identified by the audit

team is either minor (for example where there is a temporary lapse, is rare or has limited impacts) or major (e.g. there is evidence that wood from an illegal (or non-verified) source is mixed with other material).

Corrective Action Requests (CARs) describe required actions or improvements that address the non-conformances identified during the assessment. Major CARs issued during an assessment need to be closed prior to issuance of a Verification Agreement and Verification Statement (i.e. they are pre-conditions). Minor CARs alone will not prevent issuance of the Verification Statement, though failure to adequately address minor CARs within an agreed timeframe (normally 3-6 months) will result in their promotion to Major CARs.

Step 8. *Report.* The assessment team's draft report will be reviewed and approved by an independent Rainforest Alliance quality control (QC) staff member to check that procedures had been followed correctly. Based on the assessment team's findings and the QC recommendations, a final decision will be made by the Verification Services Manager. The report will be sent to the client for their comments before finalization. It is SmartWood policy to make available a Public Summary of the final report which will be posted on the Rainforest Alliance website.

Step 9. *Verification Statement.* When verification is approved by Rainforest Alliance a one-year, Verification Agreement is signed between Rainforest Alliance and the client. Upon signing of the Agreement and completion of financial arrangements related to the assessment a Verification Statement will be issued to the client with a verification code assigned (SW-VLO/VLC-XXXXXX). The Verification Statement will include scope information such as organization name, product groups, location and jurisdiction; verification code; and validity period of the statement. In case of negative decision the client must either close major CARs, or the Verification Statement will not be issued (or suspended if previously issued).

What happens after the assessment?

Following a successful assessment surveillance audits will occur at 6-monthly intervals. In cases where organizations can be classified as low risk in terms of risk of illegal activities the 6 month audit may be carried out as a desk audit. In addition there may be instances where conformance to standards or corrective action requests will require audits outside this schedule. At the end of the one year Verification Agreement a re-assessment will be carried out to renew the verification

To protect the integrity of the SmartWood verification system SW may conduct ad hoc audits in cases where SmartWood becomes aware of circumstances which provide strong grounds to believe that the client is not in conformance with the relevant standard or where complaints, backed by evidence, are presented to SmartWood.

Surveillance Audits

Surveillance audits are part of the requirements to maintain the status as verified. The audits will be conducted by qualified SmartWood auditors and include the following activities:

- Meetings with organization's staff.
- Evaluation of organization's continued compliance with the verification standards.
- Evaluation of organization's progress in meeting any outstanding Corrective Action Requests.
- Review changes to the organization's management system.
- Review of organization's records.
- Review of records of purchase and sale of verified material.
- On-site field visits to different sites of the organization.

Preparing for Assessments and Audits

Before auditors are invited to assess VLO/VLC compliance, the organization should review procedures and control systems to ensure that the required systems and documentation are in place and that the organization conforms to the VLO/VLC standard and applicable laws and regulations.

Processing facilities should pay special attention to:

During verification of wood processing industry there are some basic requirements, which must be fulfilled:

- **Scope definition:** The scope definition includes identification of:
 - Species allowed in the scope
 - Verified sources identified (FMEs, harvest units)
 - Product groups (types of products to be sold as VLO/VLC)
- **Identification:** materials used for production must be clearly indicated for distinguishing whether it is material verified or non-verified.
- **Documentation:** in each production stage – from ordering of material until sale of final product – there must be documentation, which ensures that material is VLO/VLC.
- **Segregation:** in each production stage certified materials and products must be separated from non-VLO/VLC.

These requirements are fundamental to the chain of custody system and will form the basis for the verification and assessment of functioning wood tracking systems.

How can the Verification Statement be used in marketing and promotion?

Once the organization has received the Verification Statement there are specific requirements for the communication that can be made by the client related to the verification. In general, the Verification Statement can be used in promotional communication and the verification code number (e.g. SW-VLO/C-#####) can be put upon invoices and products to permit traceability. The RA/SW Verification logo can also be used for claims and promotional purposes within specified limits, but the logo cannot be used on-product. All public communication about verification claims have to be approved by the Rainforest Alliance prior to use.

Multi-site verification

The SW verification program and standards allow for multiple sites to be verified within the same Verification Agreement scope. That means that the organization can hold only one Verification Statement that cover more than one processing site and includes FMEs as long as the standard requirements for multi-site management have been met. Those are found in the CoC section of the VLO and VLC standards. FMEs can also be included as part of a full supply chain verification that also includes processing industry.