

## Group Chain of Custody Eligibility Criteria Revision for Canada

October 2023

### Summary

Almost all (99.3%) of the businesses in Canada in the category of agriculture, forestry, fishing, and hunting are considered small (1-99 employees). While FSC COC certification is an important way to differentiate forest products businesses that utilize inputs from FSC certified responsibly managed forests, managing and paying for COC certificates can be prohibitively difficult and expensive for individual small businesses. This is why group chain of custody (COC) certification is critical and why it is necessary to modify the COC group eligibility criteria thresholds to make it available to more small businesses.

This report provides an overview of the research implemented by FSC Canada to support a proposal for revised national eligibility criteria for group COC certification in Canada. The proposed criteria are CAD\$ 5 million in annual forest product turnover or 25 full time equivalent employees to replace the current default international criteria of less than 15 employees OR less than 25 employees and less than CAD\$ 1M in annual turnover. FSC Canada also proposes that the turnover criterion be tied to adjustments by FSC to the AAF for COC certificate holders, i.e., when the AAF goes up by a certain percentage, the maximum turnover criterion would be increased by the same amount. Increased eligibility through the proposed threshold changes would allow more small businesses to pursue group COC certification with the support and lowered costs that group programs offer, and a link to increases in the AAF would avoid the need for increasing the turnover criterion for a while.

### Introduction

Canada is one of the largest producers and consumers of wood in the world (FAO 2021), and, in terms of certification, it has the largest area of certified forests in the world and a relatively large number of COC certificates (FSC 2023). In addition, almost all (99.3%) of the businesses in Canada in the agriculture, forestry, fishing, and hunting category are considered small (1-99 employees). For many small wood product companies, including wood workers, print shops, retailers, and brokers, FSC COC certification has only been possible through groups which assist members with the otherwise prohibitively complex and expensive certification process. However, due to rising costs of labor and wood materials and related increases in sale prices and annual turnover for many companies, the current group COC eligibility turnover thresholds are both forcing out members of the current small COC groups and significantly restricting access among the large number of potential new members. This is why it is necessary to modify the COC group eligibility criteria thresholds to make group certification available to more small forest products businesses. Furthermore, increasing the number of members in COC groups would help distribute the costs of certification among group members, making it even more affordable for each individual company.

## Research

### Definition and prevalence of small businesses in Canada

The Canadian Government considers an enterprise “micro” if they have 1 to 4 employees and “small” if they have between **5-99 employees**, and often groups these two together as “small” in reports (Innovation, Science and Economic Development Canada, 2022). For the purposes of analyzing financial performance data of small and medium companies, it defines “small” companies as those having **annual revenue between \$30,000 and \$5,000,000 CAD** (Statistics Canada, 2023). Small businesses dominate in Canada, with 97.9% of all employer businesses and 99.3% of businesses categorized as agriculture, forestry, fishing, and hunting businesses falling in this category.

### Current COC groups

There are two group certificates for COC in Canada with a combined total of 39 members representing a diversity of types of companies, including biochar suppliers, building material and wood suppliers, cabinet makers and furniture manufacturers, packaging manufacturers, printing companies, sawmills, and wood residue suppliers. Sustainable Northwest manages one group with 24 members representing a diversity of types of businesses, mostly located in British Columbia and Ontario. The second group is managed by Groupe Lignum with 15 members representing mostly printing companies, located mostly in Quebec.

Annual wood products turnover and number of employees data were analyzed for the members of Sustainable Northwest’s group (a request has been sent to Groupe Lignum). In 2022, Group 1 had 24 members with a range in turnover of CAD\$ 68,878 - 49,999,999. The average turnover, including one outlier at \$49.9 M, was \$3.4 M; without the outlier, the avg was \$1.6 M (Figure 1.a). In terms of numbers of employees, the range was 1-16, while the average and median were 7.3 and 6.5, respectively (Figure 1.b).

A few notable points about Group 1’s members:

- There was a small difference in number of employees for businesses below and above the \$1M in turnover threshold: 7 employees for companies below \$1M and 8.2 employees for companies above \$1M (Figure 2), which is reflected in the slight upward slope in the trendline for employees in Figure 2.
- 63% of members had annual revenue over \$1M.
- All but one member had 15 or less employees, so 1 person is using the <25 employees and <1M criterion. This may be because few companies with 16-25 employees have annual revenue below \$1M.

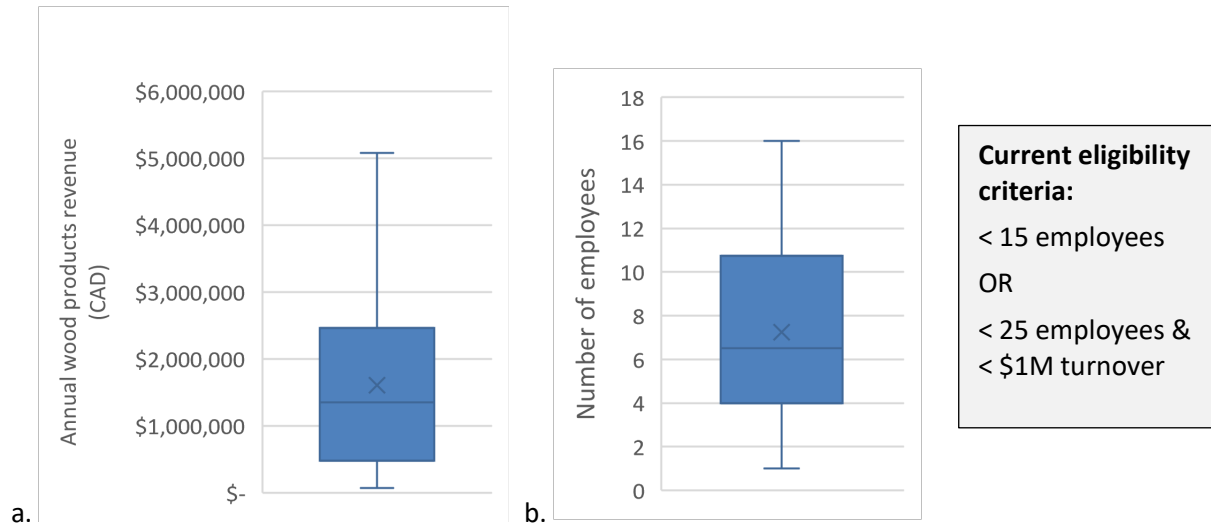


Figure 1. Group 1 member data for 2022. a. Turnover in annual wood products revenue for 20 members, excluding one outlier company with \$49.9M and three companies with zero reported turnover (Canadian Dollars). b. Number of employees for all 24 members.

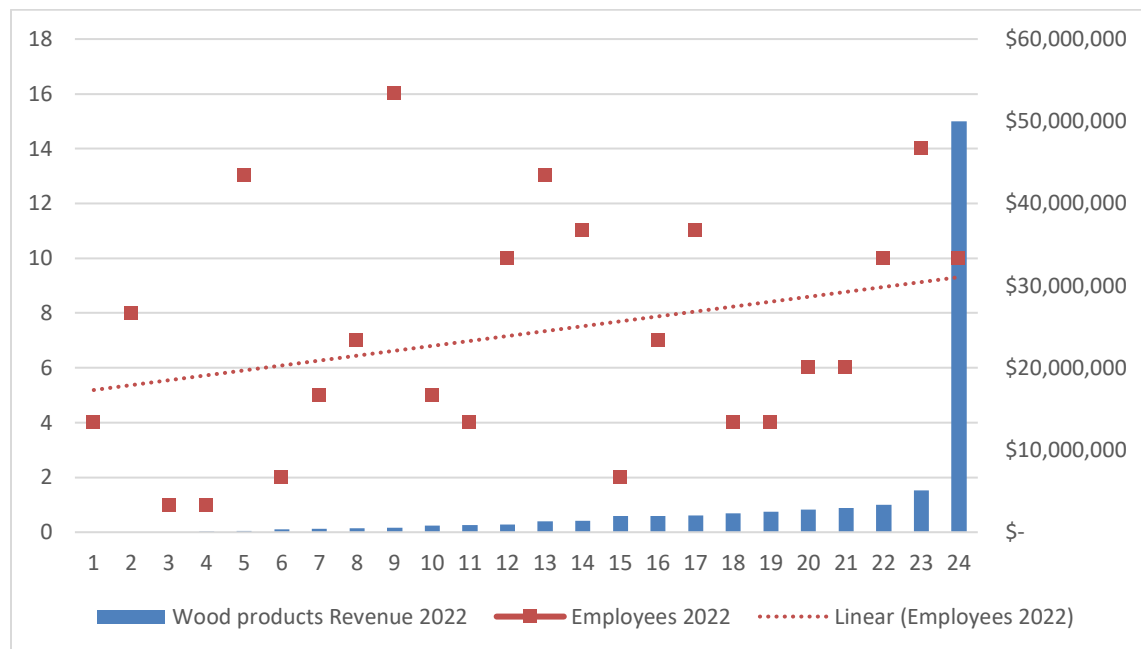


Figure 2. Group 1's number of employees and wood products turnover for all members in 2022 (Canadian Dollars); 3 members reported zero turnover.

### Conclusions

Clearly, the current \$1M threshold is an unnecessary bottleneck for companies with 16 to 25 employees as only 1 company in this category was participating. For companies with 15 or less employees, the average turnover was \$3.4 M when one outlier with \$49.9M was included, and \$1.6 M without the outlier. Increasing the thresholds to \$5 M in annual turnover or 25 employees would help make COC group certification available to a larger number of small forest products businesses.

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