



Chain of Custody and Traceability Standard

Sustainability Framework
Programme

Chain of Custody and Traceability Standard Sustainability Framework Programme	
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Introduction

This Standard applies to all Organisations that want to be verified according to the Sustainability Framework and those trading in Sustainability Framework verified products.

The Standard is to be used together with other normative standards – a list of relevant standards can be found in **box 1**.

Box 1. List of normative documents of the Sustainability Framework Programme

Standard SP-01. Sustainability Framework. The Framework contains the requirements applicable to producers working on land use level (land managers), processors and manufacturers. For some products, a product- or sector-specific adaptation of the Framework may be applicable.

Standard SP-02. System Requirements for Certificate Holders. This standard is applicable to all Sustainability Framework verified operations. It contains generic quality system requirements.

Standard SP-03. Supplier Management and Due Diligence Requirements. This standard is applicable to Organisations that apply a risk-based due diligence system to confirm that the products are compliant with the Sustainability Framework.

Standard SP-04. Requirements for Claims and Seal Use. This standard regulates claims and use of the Preferred by Nature Seal related to the Sustainability Framework Programme. It also contains the requirements related to carbon compensation, that is a prerequisite for the use of the Seal.

Standard SP-05. CoC and Traceability Standard. This standard contains requirements for chain of custody models and traceability systems used to manage claims and trace products in the supply chain.

Standard SP-09. Terms and Definitions. This standard contains definitions and concepts used in the Sustainability Framework Programme.

This Standard is mandatory for Organisations purchasing, handling, processing and/or selling verified products. It is a prerequisite for any product-related claims and Seal use under the Sustainability Framework Programme.

The Standard also contains requirements which may be used to ensure that material is traceable to its point of harvest, whether at the country level, sub-national level or **plot of land** level. The Standard may be used by supply chain Organisations wishing to document compliance with regulatory requirements on material traceability, such as the EU Deforestation Regulation¹. The requirements related to knowing the plot of land origin of the material are mandatory for any organisation wishing to claim alignment with the EU Deforestation Regulation (EUDR) and optional for others.

¹ <https://ec.europa.eu/environment/forests/deforestation-proposal.htm>

Scope

This Standard specifies requirements for all Chain of Custody (CoC) verified and applicant Organisations concerning sourcing, processing and sale of material and products verified under the Preferred by Nature Sustainability Framework Programme.

Chain of Custody verification shall cover all relevant activities conducted by the verified Organisation (including data collection, purchasing, processing, storage, marking, record-keeping etc.) to ensure proper handling of all verified materials and products in relation to the claims made about these products.

This Standard regulates **activities** related to:

- Purchase of verified products,
- Handling verified material,
- Manufacturing and sale of verified products,
- The pre-conditions for making claims and communicating about the verified product status. Note that a separate document - Standard SP-04. "Requirements for Claims and Seal Use" – must also be complied with before making any claims.

Entities verified against this Standard may be involved in one or more of the above activities, and some parts of the Standard may not apply to all types of organisations.

In particular, land managers (such as farmers and forest management operations) are only subject to requirements relevant to selling materials and making claims. Entities verified against this Standard shall be verified against all applicable requirements where they conduct relevant activities.

Companies involved only in the transport, distribution and sale of the products, **after the final product is packaged and labelled, do not need to be verified under this Standard.**

This Standard is effective from the date of approval, as stated in this document. This Standard will be updated periodically, and the updated versions will supersede previous versions on the publication date.

Versions history

Version 1.0, August 2022

Version 1.3, January 2023

Terms and definitions

Chain of Custody system. A chain of custody system includes measures that define the responsibility for the custody of materials and products when these are sourced from one organisation, handled and then transferred to another organisation within the relevant supply chain. Its purpose is to ensure that specified characteristics (e.g. that the product, a component of the product or part of the product is Preferred by Nature Sustainability Framework verified) are indeed the ones that are actually delivered in the output.

Chain of Custody model. The approach taken to control inputs and outputs and associated characteristics of the material and related information and claims.

Claim. A message used to describe or promote a product, process, business or service concerning its sustainability attributes or credentials.

Compliant material. Material that conforms with the Sustainability Framework requirements. Compliant material can originate from a Sustainability Framework verified producer (e.g. Sustainability Framework verified farm or forest manager), be purchased as being Sustainability Framework verified or it can be verified as being compliant based on a due diligence process implemented according to the Preferred by Nature due diligence requirements (Standard SP-03. "Supplier Management and Due Diligence Requirements"). **The concept and definition of 'compliant material' are central to understanding and fulfilment of this Chain of Custody Standard.**

Component. A constituent part or element of a larger whole, such as a semi-finished or finished manufactured product. For clarity, ingredients of food products are considered components in this Standard. This may be cocoa in a chocolate bar or a specific wooden component used as part of a piece of furniture.

Core component. It refers to the main component or ingredient in a multi-component product. The core component is the main component that is usually associated with the product. It is typically a substantial and often also visible part of the product. For example, for chocolate, cocoa is a core component. In case of doubt, please contact Preferred by Nature to clarify if a component would be eligible as a core component for a given product.

Conversion factor. The ratio between the output and input materials for a given product or production process in a specified location. For example, the ratio of sawn timber that can be produced from a unit of roundwood or the amount of crude palm oil (CPO) that can be made per unit of Fresh Fruit Bunches (FFB).

Final product. Product where no further modification (including repacking) of the product occurs. The significance of the final product is that product labelling is usually added in the final production or packaging stage. Companies involved in transporting, distributing and selling products do not need to be verified under this Standard after the final product is packaged and labelled.

Input material. Material or product sourced by an Organisation for trading, with or without processing activities applied to it.

Multi-component product. This Standard refers to products composed of multiple components or ingredients in the case of food products, e.g. a table with a glass top and wooden frame or a chocolate bar containing cocoa, cocoa butter, sugar and nuts.

The plot of land. An extension of land within a single real-estate property, as recognised by the laws of the country of production, and which enjoys sufficiently homogeneous conditions as to allow to evaluate the level of the risk associated with commodities produced on that plot.²

Organisation. The entity holding or applying for verification.

Output material. Material or product sold and shipped by an Organisation. Processing activities might or might not be applied to it.

Outsourcing. Subcontracted manufacturing or other handling services of materials/products by an independent third party. The organisation to which the handling or processing is outsourced is called a **sub-contractor**.

Raw material. Basic material in its state of origin that is converted by manufacturing, processing or combination into a new and useful product (e.g. cotton, timber, cocoa, rubber, etc.).

Transactions database. A database to ensure volume reconciliations between material sold by one organisation and purchased by the following organisation in the supply chain. These can, for example, be databases handled by certification schemes, internal databases for vertical integrated companies or databases provided by third parties. A database is typically digital but may also be developed on physical paper in some cases.

Scope. Scope defines the boundaries of the chain of custody system in terms of models applied, products included, crops/species/commodities handled, claims covered, sites and members included.

Site. A geographical location with precise boundaries within which products can be handled, produced or processed.

Source. In the Sustainability Framework Programme context, the source is a single clearly defined geographical area or region. It can be a single farm, a group of organised farms or a single forest management unit.

Sub-contractor. An external entity involved in handling/processing products or material covered by the scope of the chain of custody system under an outsourcing agreement with the verified organisation.

Traceability. It is defined as the ability to trace the movement and handling of the product through the supply chain from one point of the supply chain to another. Full traceability of a product enables tracing the movement of a product from the point of harvest (**plots of land**) through all stages of production, processing up to the distribution of the final product to consumers. For many products, material from different sources is combined at various stages in the supply chain. For example, lumber may be produced from a pile of logs containing logs from many different sources. In such a case, the only possibility to pass on information on origin is to combine the list of origin sources as a pool of possible sources from which the produced lumber can originate.

Verification code. A unique code awarded to an Organisation which is trading Sustainability Framework verified products or products containing verified material.

² European Commission, 17th November 2021. Proposal for a Regulation on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation.

Companies downstream in the supply chain, such as processing facilities or manufacturers, can also be verified under the Sustainability Framework Programme. In this case, they need to apply a risk-based supply chain management system (due diligence system) to assess and manage risks for their sources to comply with the Sustainability Framework requirements as well as ensure that carbon emissions are compensated for.




1. Material handling requirements

1.1. Purchasing and managing inputs

Requirements	Guidance
<p>1.1.1. The Organisation ensures that input material is eligible for the chain of custody model implemented.</p> <p>NOTE: See requirements for specific CoC models below.</p>	<p>The segregation and mass balance models do not allow the same input types. The material input should match the CoC model used. In addition, specific requirements apply to multi-component products.</p>
<p>1.1.2. The Organisation verifies purchase and delivery documentation to ensure that it matches the products and quantities received.</p>	<p>Verifying documents and cross-checking with physical material are necessary to ensure consistency between paperwork and actual products.</p>
<p>1.1.3. Data on each purchase of compliant material is recorded by the Organisation, including but not limited to the following:</p> <ul style="list-style-type: none"> • Reference to purchase and delivery documents, • Date of delivery, • Identification of supplier and, if applicable, its verification certificate code, • Description of the product, • Type of raw material and, if applicable, species, • Quantities, • Product claim, if applicable. 	<p>A basic set of input material data is required to enable traceability between and within verified Organisations. Additional product information may be recorded, provided that it is credible.</p>
<p>1.1.4. To purchase compliant material, the Organisation should record information on the country, sub-national region or plot of land where the product's raw material has been harvested (or a pool of these from where the product material may be originating).</p> <p>NOTE: This requirement is generally optional but shall be complied with when companies want to make claims about the source of the product or material (also see "The Claims and Seal Use Standard").</p>	<p>Recording verified information on the origin of the raw material is generally optional in this Standard. However, in some cases, companies may want to claim a specific source of the material. For example, for some food products, companies may want to make claims about the specific region from which the product originates. If any claims related to the source are made, this requirement is mandatory to follow and the level of details for the available information about the origin must correspond to the claim being made about the source of the material.</p>

Requirements

- 1.1.5.** Organisations seeking alignment with the  EU Deforestation Regulation obligations shall instead refer to the following requirement.
- 1.1.6.** For the purchase of compliant material, the Organisation shall record information about the origin of the material back to the plot of land where the product's raw material has been harvested (or a pool of such plots of land from which the material may originate).

NOTE: This requirement is mandatory and applicable only for companies that want to claim alignment with the EU Deforestation Regulation.

- 1.1.7.** Data on direct suppliers supplying compliant material is collected and stored, including the name of legal entities, locations, verification certificate codes (if applicable) and products supplied.

- 1.1.8.** When sourcing Sustainability Framework verified input material, the Organisation verifies that purchase documents conform to "The Claims and Seal Use Requirements".

- 1.1.9.** Input material which is not already Sustainability Framework verified and is intended to be used as compliant input material is verified to conform to the requirements of the Due Diligence Standard prior to receiving the material.

Guidance

The EUDR has a specific requirement to know, document and pass on to the next buyer the information about the source of the material back to the origin "plot of land". This requirement has been added to this Standard for the companies that want to demonstrate compliance with the EU Deforestation Regulation and is mandatory in such cases.

Both the Organisation and auditors must have a clear understanding of all suppliers selling compliant material.

Sales documents should indicate adequate claims clearly linked to all or part of the products sold. They should indicate the supplier verification code, which should be linked to a valid certificate with relevant products in scope.

It is up to the Organisation to ensure that it captures any potential change to the supplier certificate validity and/or product scope, including through the Preferred by Nature's certificate database.

Requirements of the Due Diligence Standard must be applied to all material which has not been already verified. Risk assessment and risk mitigation should be conducted to assess products as compliant with the Sustainability Framework.

This assessment should take place before the physical reception of the material or before the material is mixed with other materials to avoid potential mixing of the compliant material and material not verified as compliant.

The conditions on how to incorporate material certified or verified under other schemes are detailed in "The Due Diligence Standard" and additional guidance documents.

1.2. Material handling and processing

Requirements

1.2.1. Conversion factors are defined for each product in scope or for relevant product components. The methodology is justified, documented and reflected accordingly in the system used by the Organisation.

1.2.2. The data records used by the Organisation enable volume or unit reconciliation between movements of materials or products (reception, production, shipping) and existing stocks (before, during and after production).

1.2.3. If outsourcing to an external party, the Organisation ensures that the sub-contractor also meets all applicable requirements of this Standard.

Guidance

Conversion factors may be expressed in material volume or weight. It may be specific to the product line level or it may be a range. The Organisation should be able to explain the methodology used to calculate the applicable conversion factors.

All movements, transformations and stocks of verified products shall be accounted for.

Sufficient procedures shall be in place to ensure that the use of sub-contractors does not prevent compliance with the elements of the Standard. The concerned sub-contractors must comply with the relevant requirements of the Standard. To this end, sub-contractors shall be aware of relevant requirements, which might be included in the contracts/agreements concluded with the Organisation and/or in training or written instructions provided to the sub-contractor.

1.3. Sales and managing outputs

Requirements

1.3.1. All output material sold with a claim is clearly identifiable and claims conform to the requirements of "The Claims and Seal Use Standard".

1.3.2. Records of all sales of claimed products are recorded by the Organisation, including, but not limited to the following:

- Reference of sale and/or delivery document,
- Date of shipping,
- Description of the product,
- Type of raw material and, if applicable, species,
- Quantities,
- Product claim, if applicable.

Guidance

The different chain of custody models result in different claims available for the output.

"The Claims and Seal Use Standard" is an important complementary normative document to refer to.

A basic set of output material data is required to enable traceability between and within verified Organisations. Additional product information may be passed on to the next entity. Passing on verified information on the origin of the raw material is optional but may be crucial to achieving compliance with regulatory requirements (such as the European Union Deforestation Regulation) or brand sustainability requirements. Additional claims are available for products that are fully traceable to the source.

If the mixing of inputs with different sources is happening, the system should allow to appropriately merge such information in an accurate and up-to-date manner.

Requirements

1.3.3. For the sale of compliant material, the Organisation may compile and record verified information on the country, sub-national regions or plot of land where the product's raw material has been harvested (or a pool of these from where the product material may originate).

NOTE: This requirement is generally optional but shall be complied with when companies want to make claims about the source of the product or material.

Guidance

Sharing verified information on the product's origin is generally optional in this Standard. However, in some cases, companies may want to make claims about specific sources for the product being sold. For example, for some food products, companies may wish to make claims about the specific region from where the product originates. If any claims related to the source are made, this requirement is mandatory to follow and the level of details for the available information about the origin must correspond to the claim being made about the source of the material. In such cases, the Organisation must include the origin information also on their sales documents to pass on the information to the buyer (please refer to "The Claims and Seal Use Standard" for more details).

If the Organisation processes material and mixes material from different origins in its processing, it must have a system to ensure that the origin information on the sales documents includes a pool of all origins from where the material may originate. For example, if roundwood from 10 plots of land is mixed and processed into lumber, all lumber sold must list all ten plots of land as a possible pool of land plots of origin. As it will not be known from which plot of land each piece of lumber originates, this is the only way to pass on traceability information.

Organisations seeking alignment with the EU Deforestation Regulation obligations shall instead refer to the following requirement.

1.3.4. For the sale of compliant material, the Organisation shall compile and record information about the origin of the material back to the plot of land where the product raw material has been harvested (or a pool of such plots of land from where the material may originate).

NOTE: This requirement is mandatory and applicable only for companies that want to claim alignment with the EU Deforestation Regulation.

The EUDR has a specific requirement to know, document and pass on to the next buyer the information about the source of the material back to the origin "plot of land". This requirement has been added to this Standard for the organisations that want to demonstrate compliance with the EU Deforestation Regulation and is mandatory for such companies.

1.3.5. The Organisation ensures that the sale of verified products can be cross-checked against the purchases of those products on the buyer's side.

This indicator's objective is to ensure no volume discrepancy between sales and purchases of verified products. The Organisation must also ensure that auditors can check the system's credibility for the reconciliation of sales and purchase data and that auditors have access to such information for verification purposes.

Requirements

Guidance

Several options are available to achieve this, including but not limited to the following:

- The Organisation and its clients might already use the same transaction database (from another scheme or an independent traceability service provider). In such cases, relevant data and access should be granted to auditors to verify the volume reconciliation between sales and purchases.
- The Organisation's client also holds a Sustainability Framework certificate: in this case, auditors will need to have access to purchase data and cross-check volumes. No further action is required from the Organisation.



2. Requirements for single-component products

2.1. Segregation model

In the segregation model, material compliant with the Sustainability Framework is physically segregated from other materials throughout processing and handling. The compliant material from different **sources** may be mixed together, except when the Organisation would like to sell material with claims that it is from a specific source (see more information below).

This model allows claiming that the entirety of the product traded is compliant with the Sustainability Framework.

Compliant input material can be:

- Purchased as Sustainability Framework verified, with the appropriate claim (supply is verified and/or due diligence has been applied by upstream suppliers); or
- Verified by the Organisation through a due diligence process following the Preferred by Nature Due Diligence Standard (Standard SP-03 – “Supplier Management and Due Diligence Requirements”) to verify its full compliance with the Sustainability Framework before receiving the product.

If the Organisation also handles other materials that are not verified as compliant with the Sustainability Framework, all such materials shall be kept physically separated (segregated) from the compliant material.

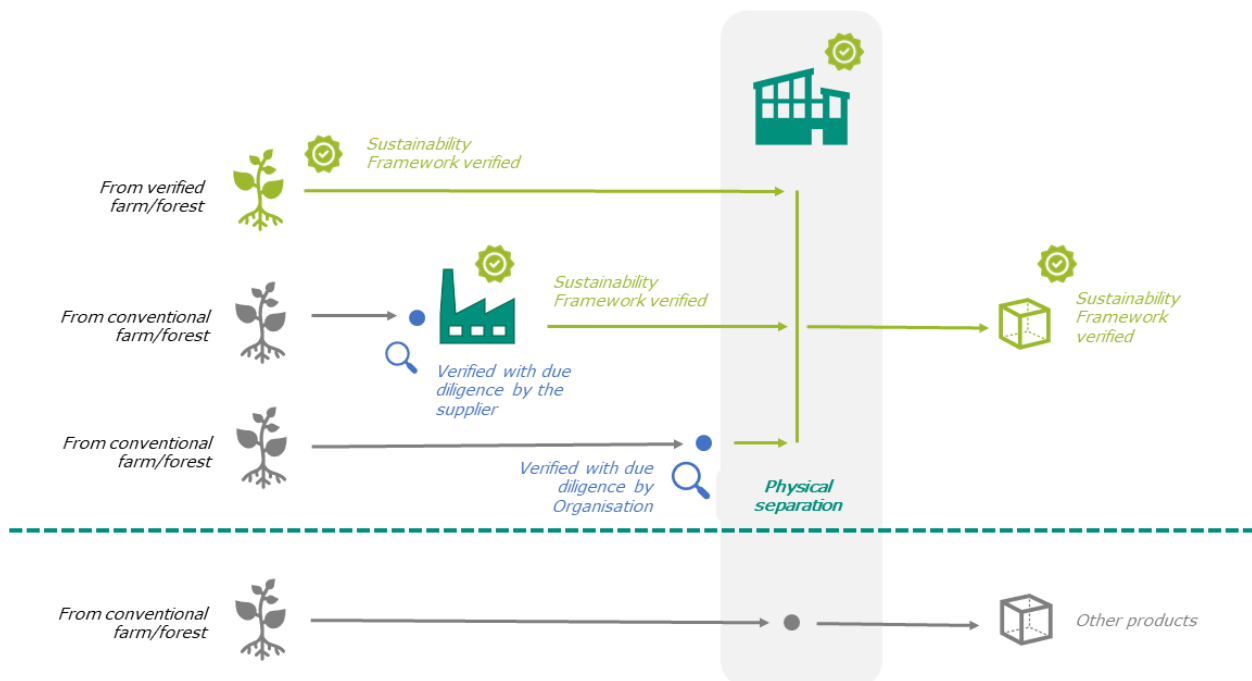


Figure 1: Illustration of the segregation model with allowed inputs

Maintaining and claiming the source of raw material

In some cases, the Organisation may also wish to claim a specific source for its verified products (plot of land, subnational region or country, specific Community or Indigenous Group area, smallholder farm etc.). Promoting products with specific origins or fulfilling purchasing, sourcing or other policies may be relevant. The segregation model allows such claims to be made for particular sources.

Input from the known specific sources shall be segregated from other compliant materials from different sources and other materials not sourced as compliant. Depending on the product's traceability level, the Organisation can then add additional claims on the source of the product. See the SP-04 – "The Requirements for Claims and Seal Use" for additional information regarding claims allowed.

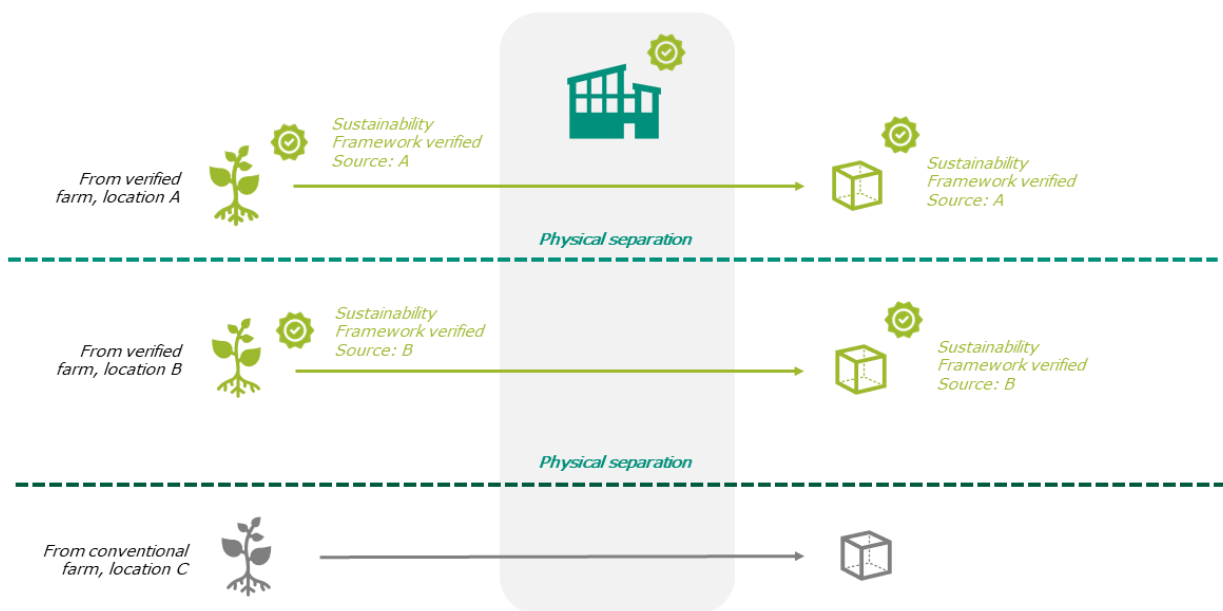


Figure 2: Segregating material with claimed sources

Requirements

2.1.1. The Organisation ensures that all input materials for the products under this model are compliant.

Guidance

The entirety of the product shall be verified as compliant with the Sustainability Framework. Input materials from a mass balance system are not considered fully compliant and these inputs are not allowed for the use of this model.

There might be minor exceptions for tiny components or a tiny part of the product (e.g. dowels in home furniture). Such exceptions shall be agreed upon in advance with Preferred by Nature.

Requirements

2.1.2. The Organisation maintains clear identification and physical separation of compliant material at every step of storage and production.

2.1.3. Products with a specific source or a pool of particular sources must be kept separate from materials with different sources at every step of storage and production.

NOTE: This requirement only applies to material with a known source of origin in cases when the organisation wants to make claims about the sold products being from a particular source.

2.1.4. The Organisation shall ensure that volumes or weight of output material sold as verified do not exceed volumes of verified input material, considering conversion factors defined by product or by-product component.

Guidance

The compliant products shall be physically identified and segregated from other products from the point of reception of the material up to the point of shipment. It may include freeing machinery from other materials/products before use, managing storage to identify and segregate verified products or other means of ensuring physical separation. It may include direct segregation marking or designation of material, machines and storage areas.

Recording and passing on information on the raw material source are optional in this Standard. However, Organisations may choose to segregate some compliant products from different sources to sell them with a claim about the products being from a specific source.

Products with claimed sources shall be kept separate from all other products, compliant or not, which have different sources not included in the final source claim.

Output volumes or weight of compliant products shall not exceed the amount of compliant input used, including the loss of material from processing, if applicable.

2.2. Mass balance model

The mass balance model allows mixing of compliant material with other materials. The volumes of compliant inputs sourced by the first supply chain entity applying the mass balance model will be translated into credits of an equivalent amount, which will then travel down the supply chain.

The **following inputs** are allowed:

- Input material with a Sustainability Framework claim from either a segregation or mass balance model (applied by a previous supply chain entity),
- Input material verified by the Organisation through a due diligence process following the Preferred Due Diligence Standard (Standard SP-03 – “Supplier Management and Due Diligence Requirements”) to verify its full compliance with the Sustainability Framework before receiving the product,
- Input material without any Sustainability Framework claim and not assessed as compliant with due diligence.

The amount of claimed and/or compliant inputs sourced by a single site over a specific period shall match or exceed the volumes of outputs sold with Sustainability Framework claims, taking into account the defined conversion factors.

In this model, the physical linkage between physical inputs and outputs is lost. Claims are made based on mathematical accounting, considering the volumes of input material used. This model ensures that the volumes sold and claimed as compliant with Sustainability Framework do not exceed the compliant volumes originating from the producers on the land use level. However, it is possible that individual products sold with mass balance claims do not physically contain material from compliant sources.

Mass balance models based on volume reconciliation usually allow either a percentage system (products are sold with a % of verified content) or a credit system (only a % of products are sold with a verified claim). The mass balance model allowed under this Standard is based on the **credit system approach**.

This model allows to sell with compliant sales claim the same proportion of compliant inputs that have been sourced over a specific period. The same proportion may be applied to outputs which will be sold with claims. The products' claims will indicate that a mass balance system has been used (see "The Claims and Seal Use Standard").

This model is intended to allow Organisations to communicate on their procurement of and progress in increasing the share of Sustainability Framework compliant material.

This model is NOT intended for:

- On-product, customer-facing claims,
- Use of the Preferred by Nature Seal at any stage of the supply chain.

Note that the mass balance model does not meet the EU Deforestation Regulation requirements.

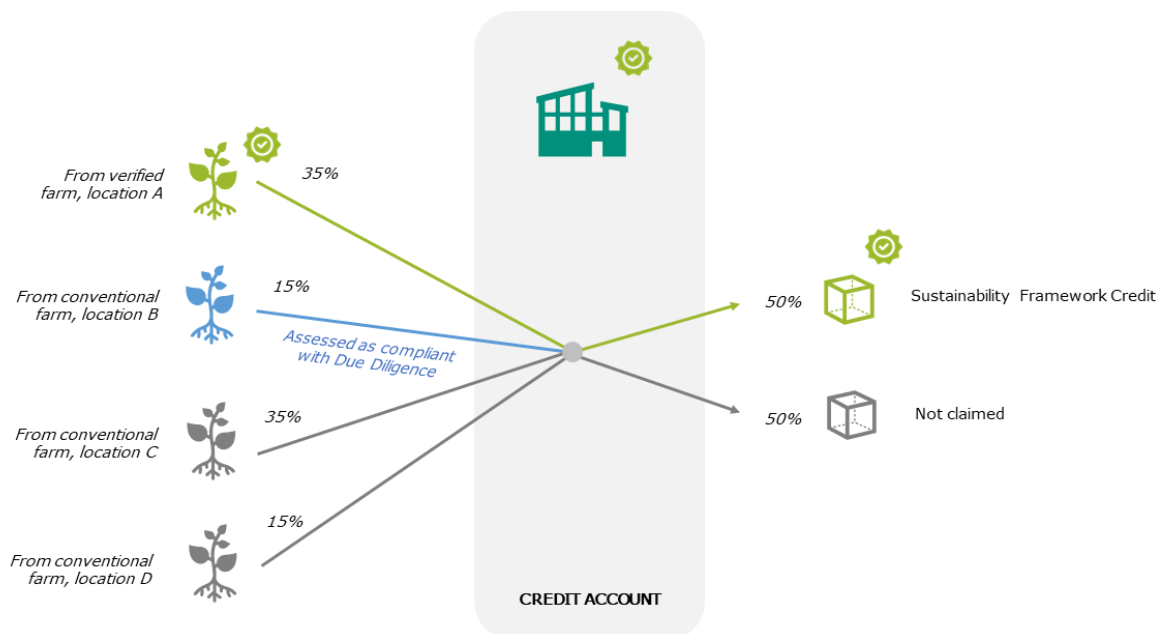


Figure 3: Illustration of the mass balance model



Companies can use the relevant Sustainability Framework requirements to assess risks of non-conformance at different supply chain stages, from the production at the farm or forest level to the processing entities.

Requirements

Guidance

<p>2.2.1. A credit account is set up for a single site and each product type. Claimed and/or compliant input material shall be credited to such account upon purchase or reception of the input material.</p>	<p>Credit accounts shall be specific to each site and each product processed.</p>
<p>2.2.2. Recorded credits are valid for one year. The available credits on the credit account shall never exceed the volume purchased during the past year, taking the conversion factor into account.</p>	<p>Credits which were not used for output claims after one year expire and cannot be used anymore. If the credit account exceeds the sum of credits recorded in the previous year, exceeding credits shall be deducted from the credit account.</p>
<p>2.2.3. Available output credit quantities are determined by product, taking into account the specified conversion factors. Output credit quantities are deducted from the account when products are sold with a credit claim.</p>	<p>To maintain the system's accuracy, conversion factors are critical in determining the output credits that may be used to sell products claimed. Available claims under the mass balance system are detailed in SP-04 "The Requirements for Claims and Seal Use".</p>
<p>2.2.4. The sale of products with a credit claim shall only happen after the equivalent volume of claimed and/or compliant material has been purchased and received onsite.</p>	<p>It is impossible to have a negative account where the output credits exceed the available input credits.</p>
<p>2.2.5. There is no double selling of volumes. In cases when products are purchased with claims from several certification/verification schemes, the Organisation must have a system in place to ensure that the volume of material sold with claims does not exceed the purchased volumes, considering the conversion factor, if applicable.</p>	<p>If the claims from multiple schemes are separately added to different credit accounts, there is a risk that the initially purchase quantity could be sold multiple times to different buyers. This requirement aims to avoid such cases, as it would mean that the volumes sold with claims are more than the volumes purchased. The system in place shall prevent this from happening.</p>

3. Requirements for multi-component products

3.1. Segregation model

Segregation model application for multi-component products

In the segregation model for multi-components, Sustainability Framework compliant material is physically separated from all other similar non-verified components throughout the processing and handling. However, it may be mixed with materials of different types under the condition that the core component of the output is compliant material, e.g. a chocolate drink (cocoa + milk) or a table (glass top + wooden frame), or sundried tomatoes (tomatoes + olive oil).

This model allows claiming that the entirety of one or several component(s) within a traded product is compliant with the Sustainability Framework.

The **input material** can be:

- One or several components purchased as Sustainability Framework verified, with appropriate claim (farms/forests are verified and/or due diligence has been applied by upstream suppliers),
- One or several components verified by the Organisation through a due diligence process following the Preferred by Nature Due Diligence Standard (SP-03 – “Supplier Management and Due Diligence Requirements”) to verify its full compliance with the Sustainability Framework before sourcing the product,
- Other inputs not verified as compliant with the Sustainability Framework (neither claimed nor assessed as compliant with due diligence). This is permitted only for components in the output product which are not claimed as compliant.

If the Organisation also handles material of the same type other than the claimed component(s) (either inputs not purchased as already verified or inputs not assessed as compliant with the due diligence requirements), all such material shall be kept physically separated (segregated) from the compliant material.

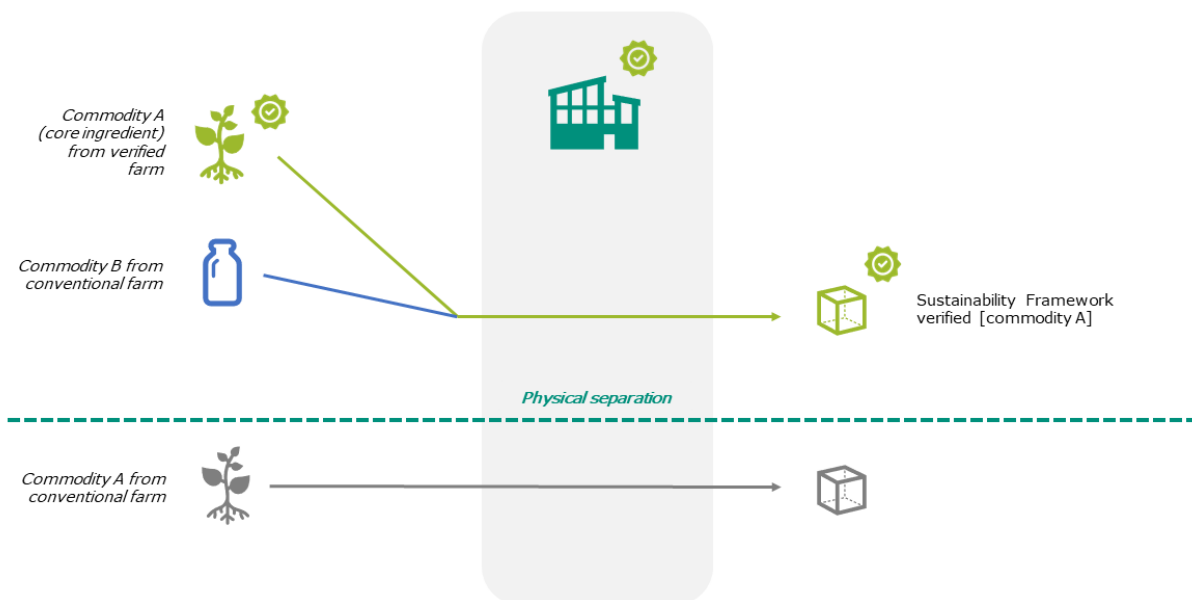


Figure 4: Illustration of the segregated model for multi-component products.

Maintaining and claiming the source of raw material

In some cases, the Organisation may also wish to claim a specific source for its verified products (plot of land, subnational region or country, specific Community or Indigenous Group area, smallholder farm etc.). Promoting products with a certain origin or fulfilling purchasing, sourcing, or other policies may be relevant. The segregation model allows such claims to be made for specific sources.

Input from known specific sources shall be segregated from other compliant materials from different sources and other materials not sourced as compliant.

Depending on the product’s traceability level, the Organisation can then add additional claims on the source of the product. See SP-04 – “Requirements for Claims and Seal Use” – for additional information on claims allowed.

Requirements

Guidance

3.1.1. The **core component** of the output material produced shall be fully and entirely from a compliant material.

Please refer to the definition of 'core component' in the "Terms and Definitions" section.

The core component must come from a segregated supply chain (purchased as an already verified product) or must be fully assessed as compliant according to the due diligence requirements (SP-03 – "Supplier Management and Due Diligence Requirements").

Input components from a mass balance system are not considered fully compliant and are not inputs allowed for the use of this model. For example, in the case of a chocolate drink mixing cocoa and milk, it is allowed that all the cocoa is compliant input and all the milk is not verified as compliant. However, it is not permitted to mix compliant cocoa with cocoa which is not verified as compliant.

3.1.2. If applicable, each component of the same raw material as the core component shall be entirely compliant.

It is not allowed to claim only one component when the product contains other components of the same raw material. For example, in a wooden table, everything made of timber shall be compliant, even if there are several components (legs, core board, veneer etc.). However, other raw materials, such as plastic, glass, metal, may not be verified as compliant.

3.1.3. The Organisation clearly identifies products, including compliant component(s), at every step of storage and production.

Products containing compliant components shall be physically identified and segregated from other products from the point of reception of the material up to the point of shipment. This may include freeing machinery from other materials/products before use, managing storage to identify and segregate verified products or other means of ensuring physical separation. It may include direct segregation marking or designation of material, machines and storage areas.

3.1.4. Products, including component(s) with a specific claimed source or a pool of specific sources shall be kept separate from material with different sources at every step of storage and production.

Recording and passing on information on the raw material source are optional.

Organisations may choose to segregate products containing compliant components from a specific source to sell them with a claim on this source. Products with components with claimed sources shall be kept separate from all other products, compliant or not, which have different sources not included in the final claim. For example, chocolate beverages with compliant cocoa from country A shall be segregated from compliant cocoa from country B and from cocoa not verified as compliant to apply a claim including the source of cocoa as being from country A.

3.2. Mass balance model

Mass balance model application for multi-component products

The mass balance model allows mixing material verified as compliant with the Sustainability Framework with other materials. The volumes of compliant inputs sourced by the first supply chain entity applying the mass balance model will be translated into credits of an equivalent amount, which will then travel down the supply chain.

The mass balance model for multi-component products allows the **following inputs** for components which are claimed in output products:

- Input material with a Sustainability Framework claim from either a segregation or mass balance model (applied by a previous supply chain entity),
- Input material verified by the Organisation through a due diligence process following the Preferred by Nature Due Diligence Standard (Standard SP-03 – “Supplier Management and Due Diligence Requirements”) to verify its full compliance with the Sustainability Framework before receiving the product,
- Input material without any Sustainability Framework claim and not assessed as compliant with due diligence.

For example:

a chocolate drink mixing (1) verified cocoa from a segregation model, (2) claimed cocoa from a mass balance model, (3) cocoa not claimed nor verified as compliant and (4) milk not claimed nor verified as compliant.

This model is allowed provided that part of the core component inputs is claimed and/or verified as compliant.

In this model, the physical linkage between physical inputs and outputs is lost. Claims are made based on mathematical accounting, considering the volumes of input material used. This model ensures that the volumes sold and claimed as compliant with Sustainability Framework do not exceed the compliant volumes originating from the producers on the land use level. However, it is possible that individual products sold with mass balance claims do not physically contain material from compliant sources.

Mass balance models based on volume reconciliation usually allow either a percentage system (products are sold with a % of verified content) or a credit system (only a % of products are sold with a verified claim). The mass balance model allowed under this Standard is based on the **credit system approach**.

This model allows declaring a proportion of claimed inputs sourced over a specific period within a single site. The same proportion may be applied to outputs which will be sold with claims. The products’ claims will indicate that a credit/mass balance system has been used (see “The Claims and Seal Use Standard”).

This model is intended to allow Organisations to communicate on their procurement of and progress in increasing the share of Sustainability Framework compliant material.

This model is NOT intended for:

- On-product, customer-facing claims,
- Use of the Preferred by Nature Seal at any stage of the supply chain.

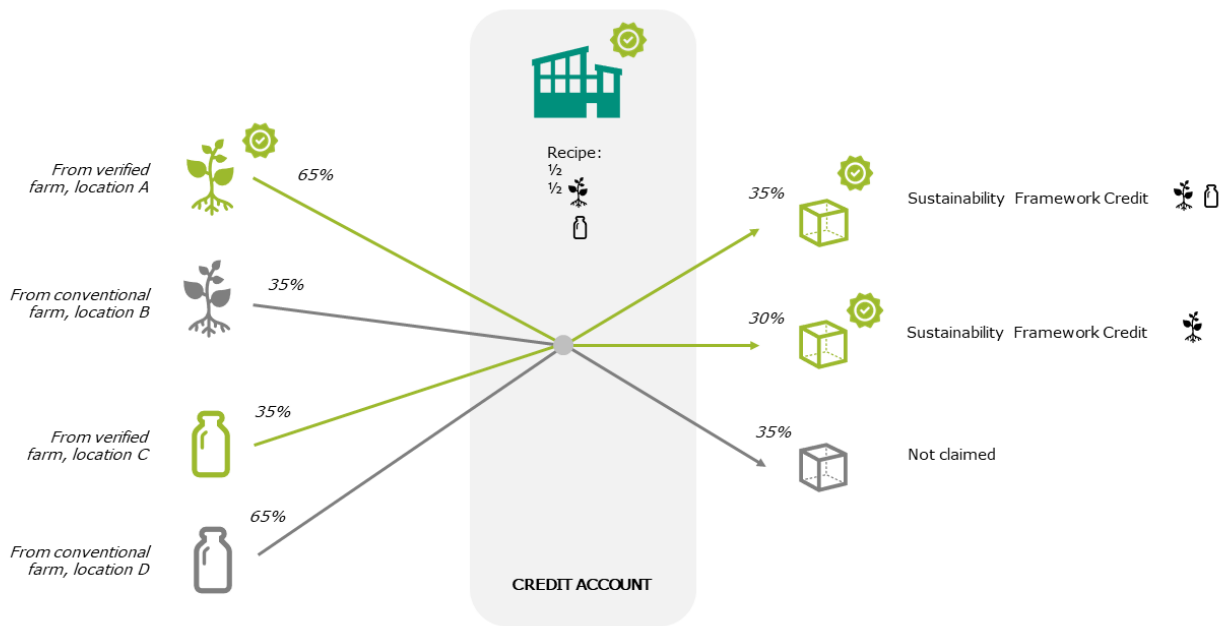


Figure 5: Illustration of the mass balance model for multi-component products

Requirements

3.2.1. Part of the core component of the output produced shall be Sustainability Framework compliant input.

3.2.2. A credit account is set up for the single site and by product for each type of component processed and claimed. Compliant input components shall be credited to the account upon purchase or reception of the input material.

3.2.3. Recorded credits are valid for a period of one year. The available credits on the credit account shall never exceed the volume purchased during the past year, taking the conversion factor into account.

Guidance

Please refer to the definition of 'core component' above. The core component of the product must be associated with Sustainability Framework verified raw material.

Other non-core components may also be claimed if sourced with a Sustainability Framework claim or verified as compliant according to the due diligence requirements.

Credit accounts shall be specific to each site and each product processed. For example, in the case of a fruit beverage with strawberries and bananas, there is a credit account for strawberries and a credit account for bananas. Depending on the credits available, the output beverage may be claimed (1) both for strawberries and bananas, (2) only for strawberries or (3) only for bananas.

Credits which were not used for output claims after one year expire and cannot be used anymore. If the credit account exceeds the sum of credits recorded in the previous year, exceeding credits shall be deducted from the credit account.

Requirements

3.2.4. Available output credit quantities are determined by product for each relevant component, taking into account the specified conversion factors. Output credit quantities are deducted from the account when products are sold with a credit claim.

3.2.5. The exact composition of the final outputs is clearly determined to allow the accurate deduction of output credit in the credit account(s).

3.2.6. The sale of products with a credit claim for one or several components shall only happen after the equivalent volume of claimed and/or compliant inputs has been purchased and received onsite.

3.2.7. There is no double selling of volumes. In the cases when products are purchased with claims from several certification/verification schemes, the Organisation must have a system in place to ensure that the volume of material sold with claims does not exceed the purchased volumes, considering the conversion factor, if applicable.

Guidance

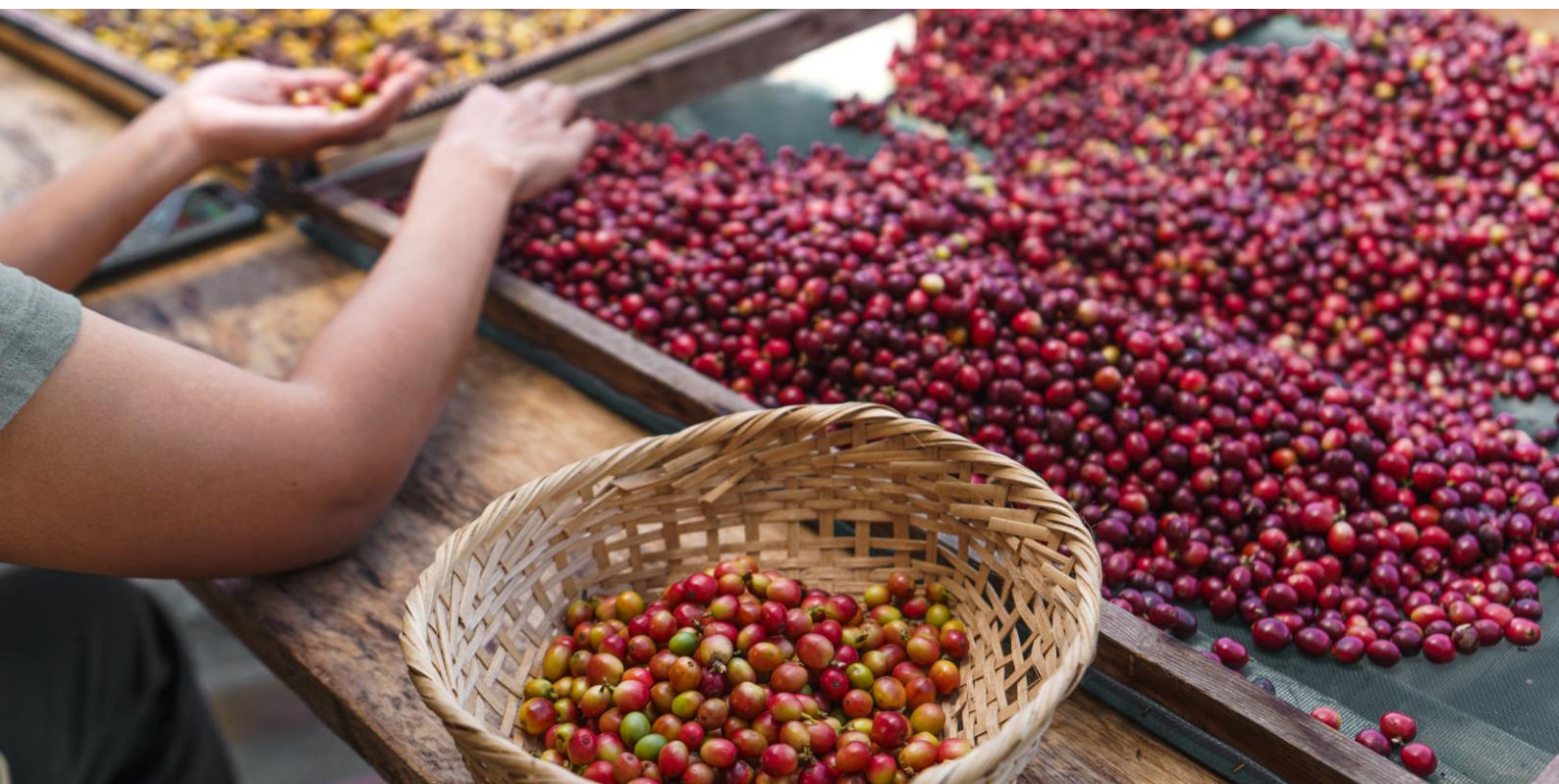
To maintain the system's accuracy, conversion factors are very important in determining the output credits that may be used to sell products claimed.

Available claims under the mass balance system are detailed in SP-04 – "The Requirements for Claims and Seal Use".

For example, a pair of shoes is composed of 200g of natural rubber and 300g of leather. If 10 pairs are sold with a Sustainability Framework claim for both rubber and leather, then 2kg should be deducted from the rubber account and 3kg from the leather account.

It is impossible to have a negative account where the output credits exceed the available input credits.

If the claims from multiple schemes are separately added to different credit accounts, there is a risk that the initially purchase quantity could be sold multiple times to different buyers. This requirement aims to avoid such cases, as it would mean that the volumes sold with claims are more than the volumes purchased. The system in place shall prevent this from happening.



Preferred by Nature is an international non-profit organisation working to support better land management and business practices that benefit people, nature and the climate. We do this through a unique combination of sustainability certification services, projects supporting awareness raising, and capacity building. For more than 25 years, we have worked to develop practical solutions to drive positive impacts in production landscapes and supply chains in 100+ countries. We focus on land use, primarily through the forest, agriculture and climate impact commodities, and related sectors, such as tourism and conservation.

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