

Exploring due diligence – timber products from tropical countries

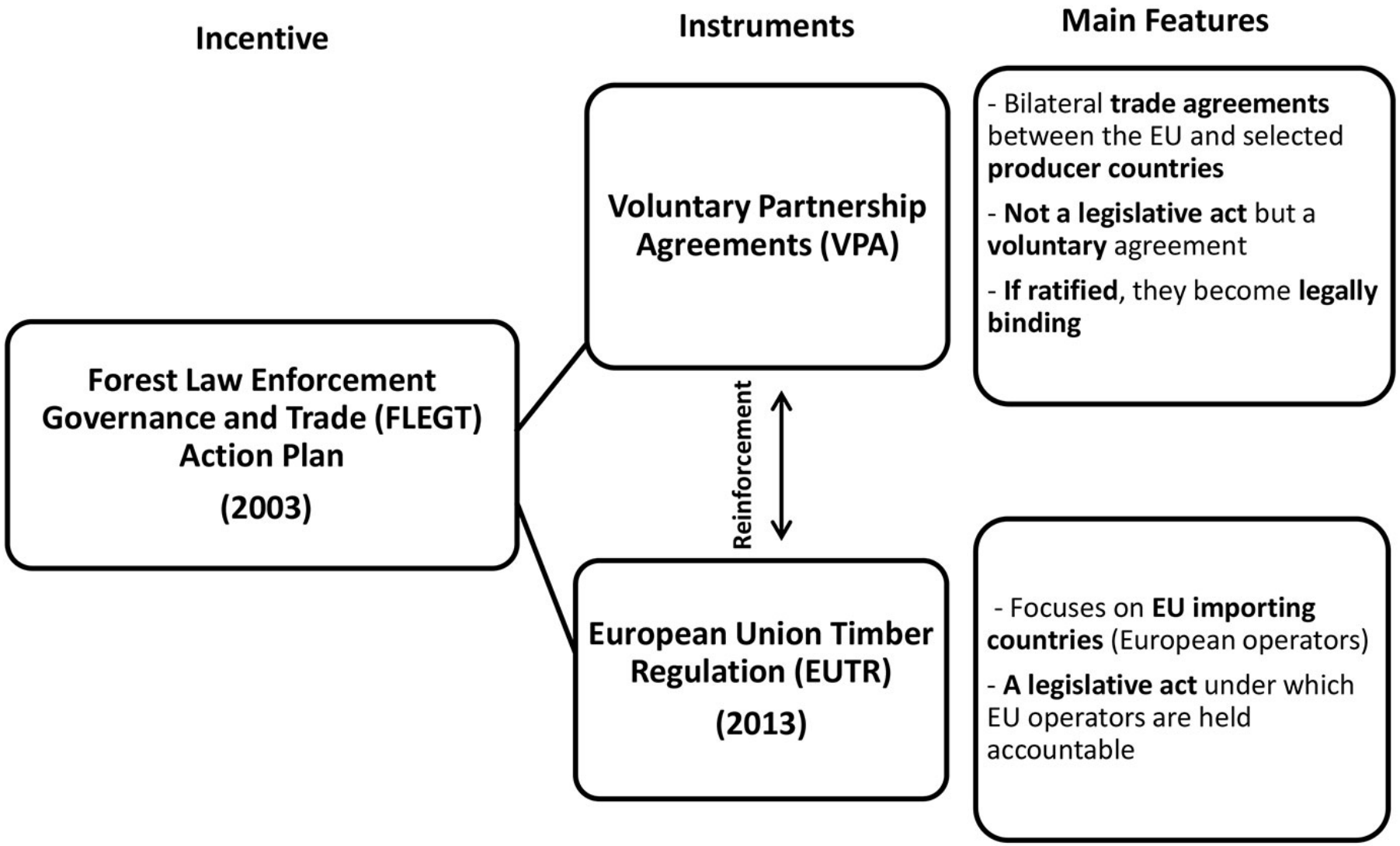
NEPCon
Preferred by Nature™

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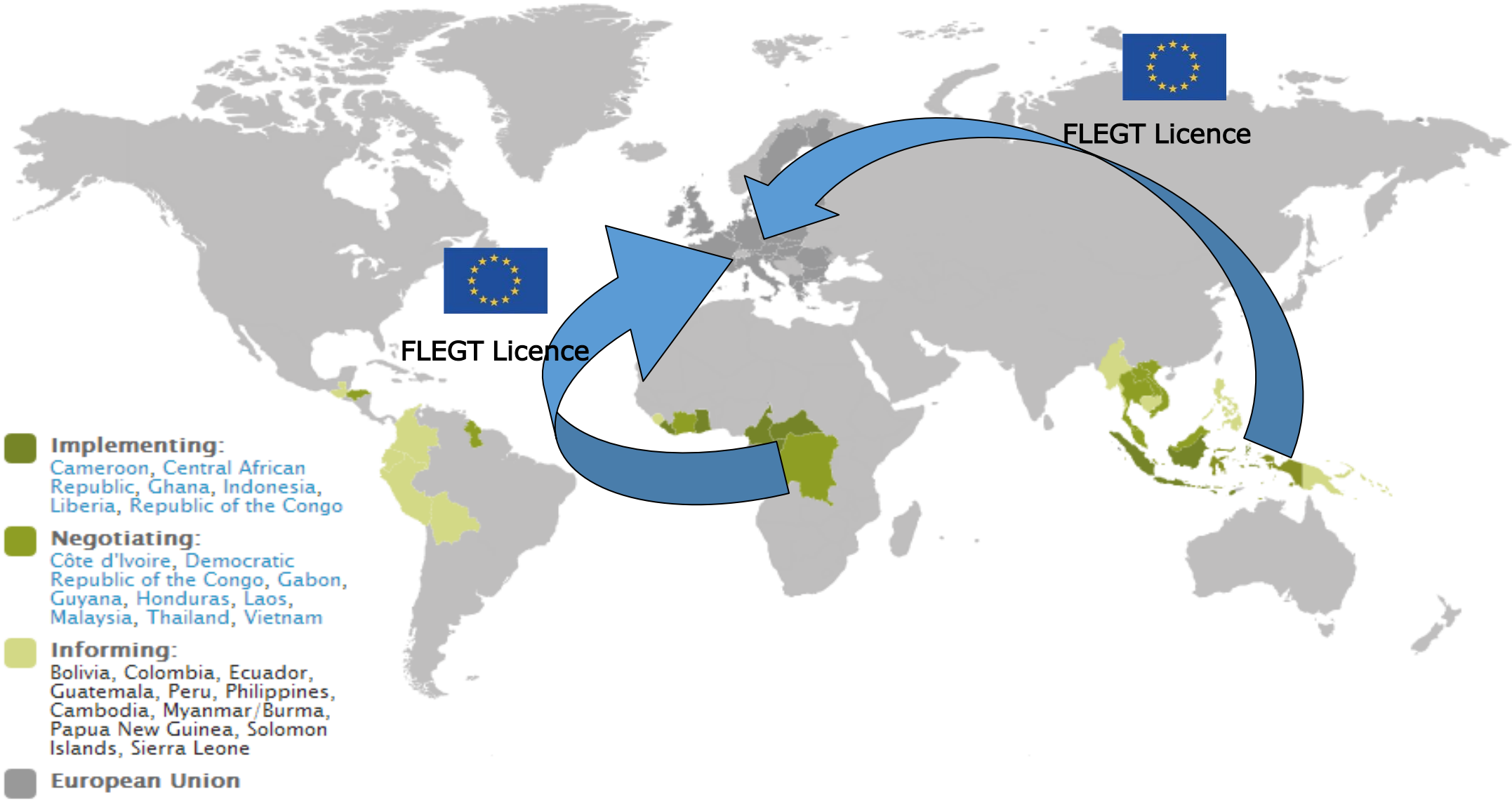
- FLEGT VPA
- Indonesia
- Viet Nam
- China

1. Forest Law Enforcement Governance & Trade

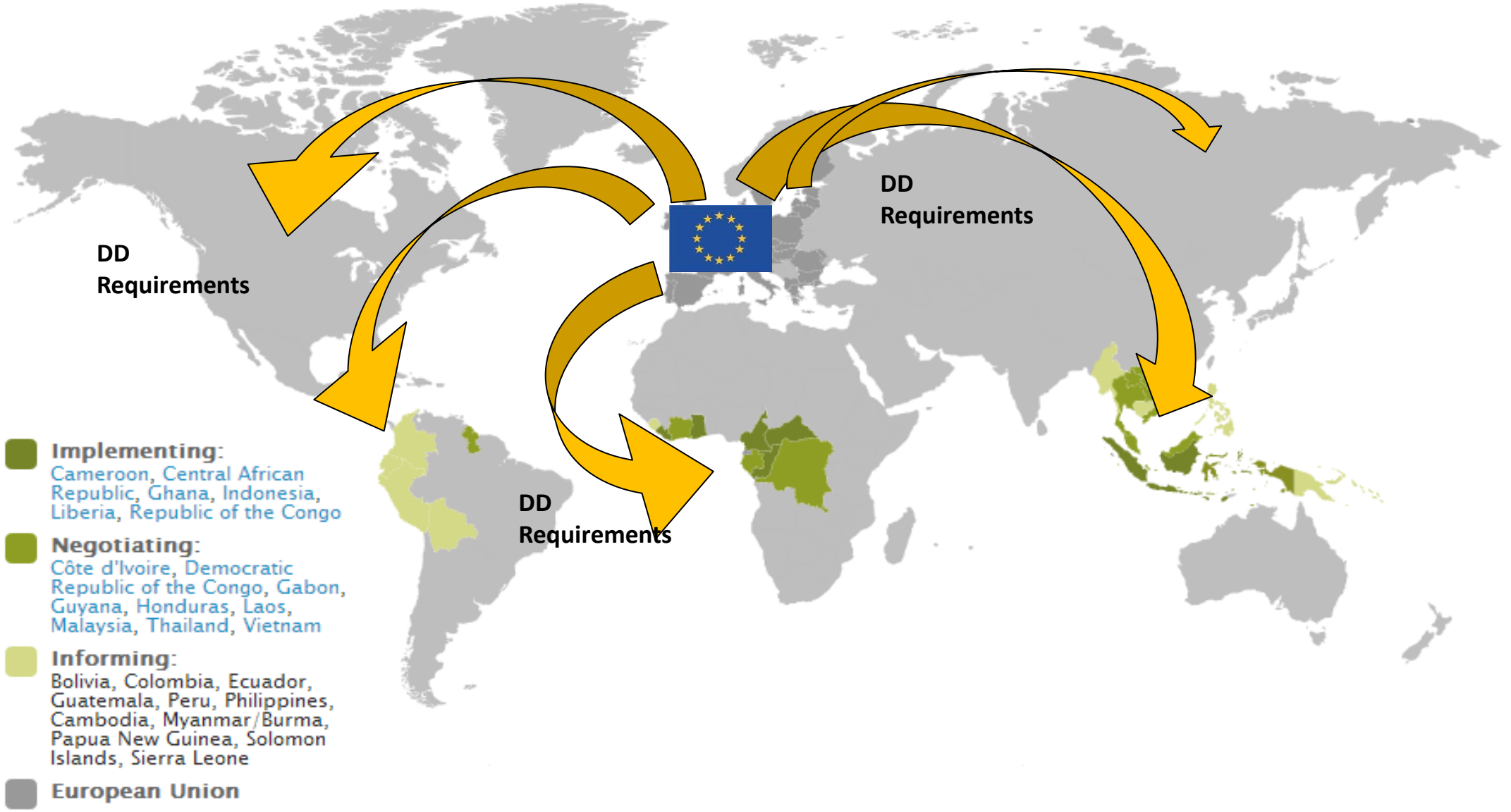
FLEGT: EUTR & VPA



FLEGT Licensed timber

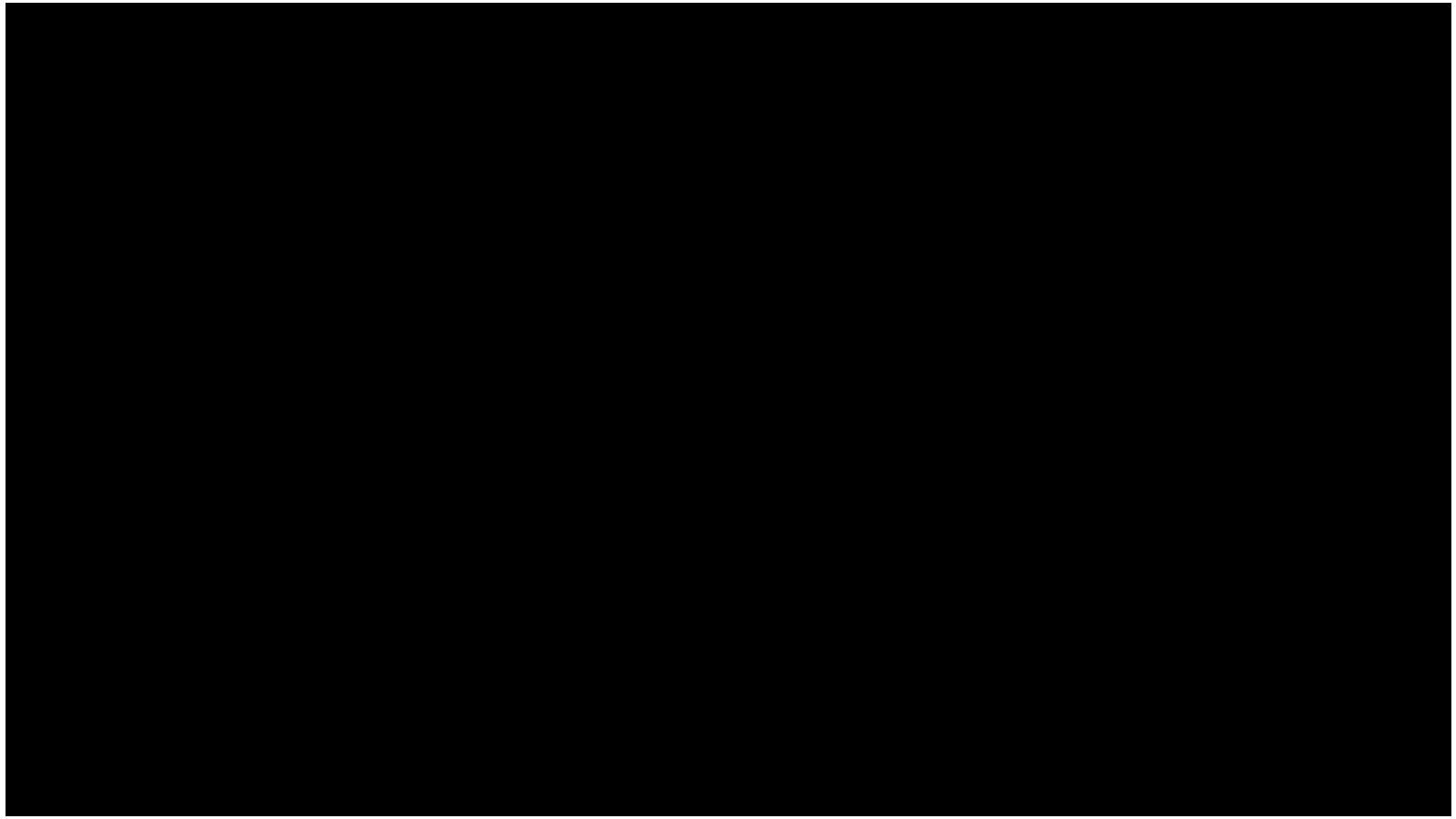


EUTR Due Diligence requirements



For more info on the FLEGT VPA…

https://www.youtube.com/watch?v=FY-9pdzTeIE&feature=youtu.be
http://www.euflegt.efi.int/es/home
http://www.flegt.org/



2. Indonesia

Indonesian timber products

- Indonesia and the EU have agreed a Voluntary Partnership Agreement (VPA)
- FLEGT licences for Indonesian timber issued since November 2016
- FLEGT licensed timber and timber products are considered to comply with the requirements of the EUTR, so you do not need to exercise due diligence on these products.



For timber imports from Indonesia:

- You will receive a FLEGT Licence from your supplier prior to the export of the product from Indonesia.
- You must submit the electronic FLEGT licence to your Competent Authority for verification **before** the shipment arrives in the EU and before any customs declaration is made.

Indonesian® LEGAL Wood

3. Viet Nam

Vietnamese timber products



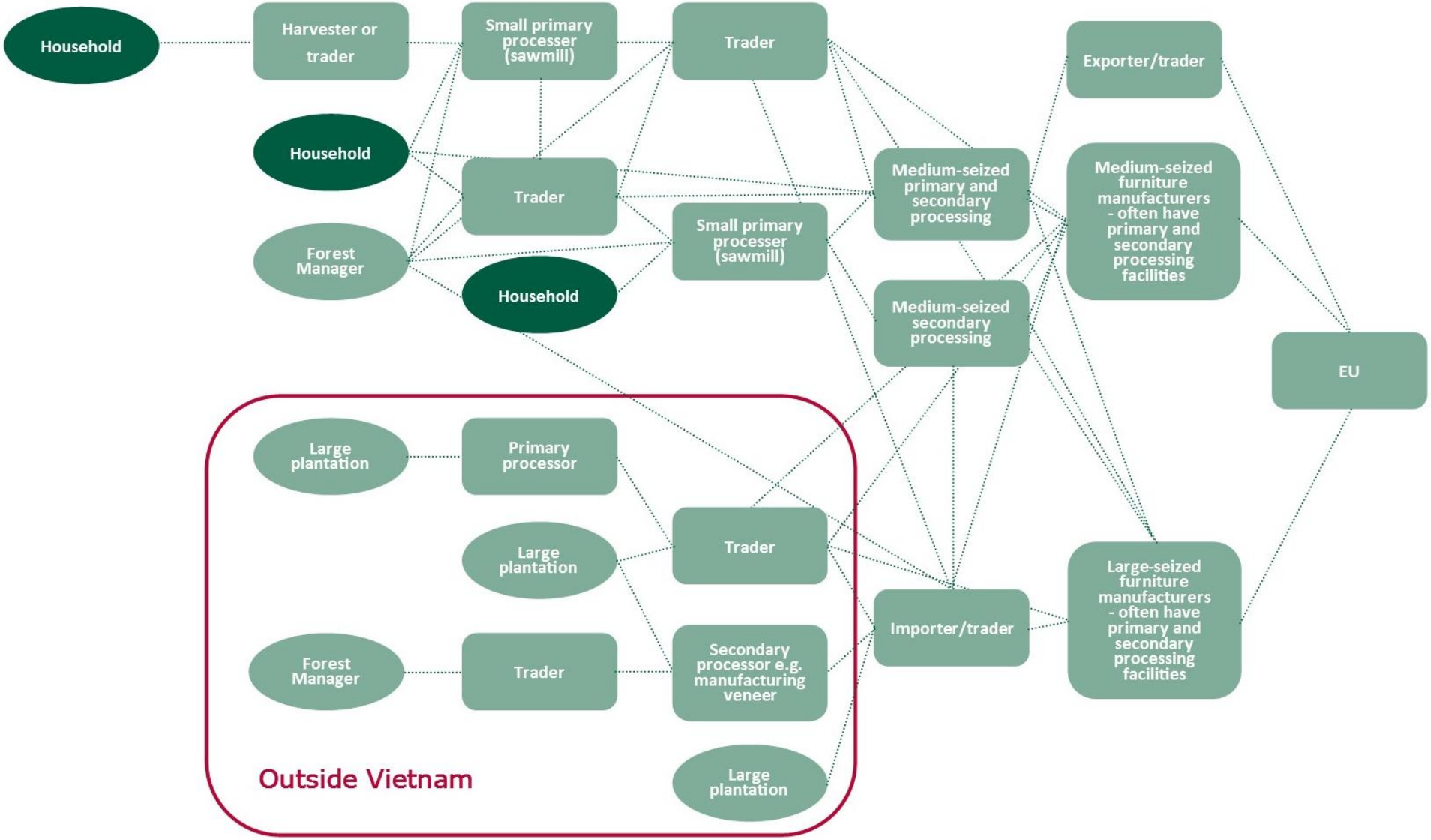
- Nearly half of Viet Nam is covered by forest (15.4 million ha),

  main categories:
  - Production forests (48%)
  - Protection forests (38%)
  - Special use forest (14%)
- The total forest area has increased over the past two decades, mainly due to the expansion of large-scale timber plantations (FAO, 2015).
- The Vietnamese forest industry produced 10.75 million m^3 of logs in 2014, mostly from forest plantations, as harvesting in natural forests is largely prohibited (USITC, 2010; ITTO, 2015).
- Viet Nam plays a key role in the timber processing sector in south-east Asia, importing large volumes of timber from many countries in the region and exporting mainly to the EU, the US and Japan.
- Viet Nam's exports of secondary wood-based products were valued at $4.38 billion in 2013. Exports of primary timber products were valued at 769.8 million US dollars in 2014 (ITTO, 2015).



Processing hub
High volume of imported timber (70 – 80%)
Complex legal system
High corruption (CPI of 33 in 2015)
Low awareness
Lack of information and law enforcement
> 3,500 SMEs

Vietnamese timber products



Vietnamese timber products

- Illegal logging and trade in illegal timber is a serious problem, several legality risks are present in Vietnamese timber supply chains.
- It has been estimated that 30,000-50,000 forest violations are reported per year, and the volume of high-risk imports in 2013 was estimated to be 2.3 million m^3 (18% of the country's wood-based imports) (Chatham House, 2014).
- Risks of illegal timber are wide-ranging:
  - land tenure,
  - taxes and fees,
  - timber harvesting activities, and
  - trade and transport.

However…

- Viet Nam and the EU have agreed a Voluntary Partnership Agreement (VPA)
- The VN TLAS is now being developed



No FLEGT licensed timber yet = due diligence is still required!

- A lot of the timber being processed and sold to the EU is either imported from lower risk countries and/or is domestic plantation timber.

Vietnamese timber products



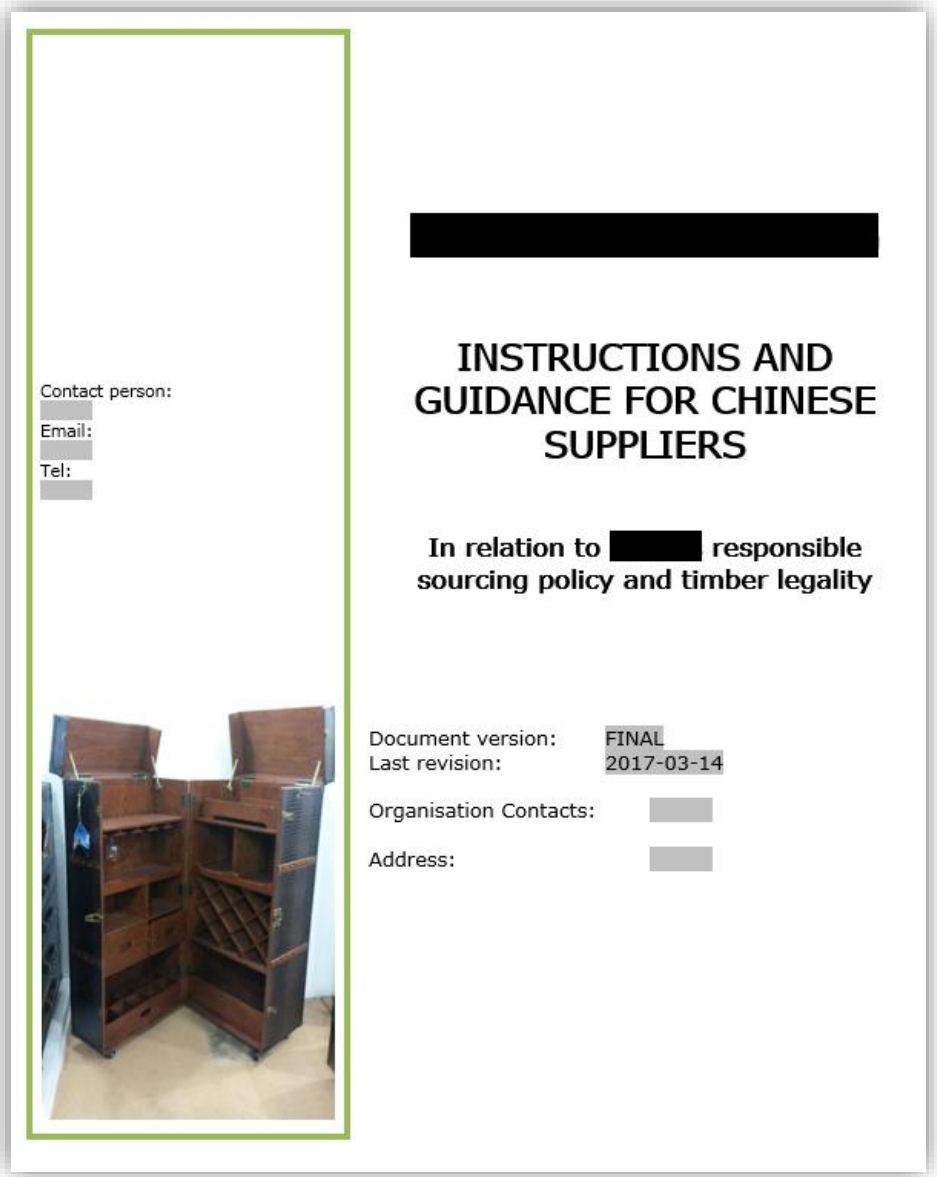


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4. Chinese supply chains – risk mitigation examples

Plywood

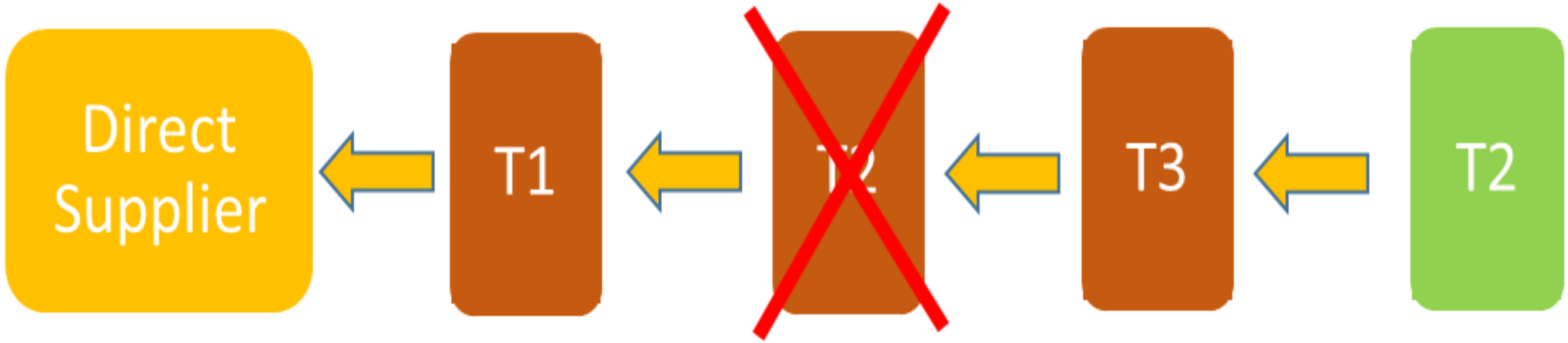


1. Complete DD-05 and DD-07
2. Address Problematic Elements within your Supply Chains
3. Implement and Maintain a System to ensure Minimum Information

Plywood

2: Address Problematic Elements within your Supply Chains

"Please be aware that we have some minimum expectations with regards to information about our suppliers and supply chains…."



Plywood

Supply Chain Issue	Explanation	Required Action
Broken Supply Chains	Suppliers must fully map their supply chains and record this information in the DD-07 Excel.	Gaps in your supply-chain map are unacceptable as they reduce our confidence in the origin and legality of the raw materials entering its products.
Complex Supply Chains	We strongly encourage suppliers to keep their supply chains as short and simple as possible.	On occasion, we may require suppliers to limit the number of sub-suppliers used to provide raw materials for its products.
Hardwood Species *Ulmus* spp., *Fraxinus* spp., *Betula* spp., *Fraxinus* spp., *Quercus* spp., *Fagus* spp...	The Chinese State Forestry Administration (SFA) has stated its intention to phase-out all commercial logging in natural forests in China by 2017.	The risks of illegal harvesting and trade or of hardwood raw materials from NE China or Russia are high. **If you cannot prove the origin and legality of this material, with a high level of confidence, you should cease to source this material.**

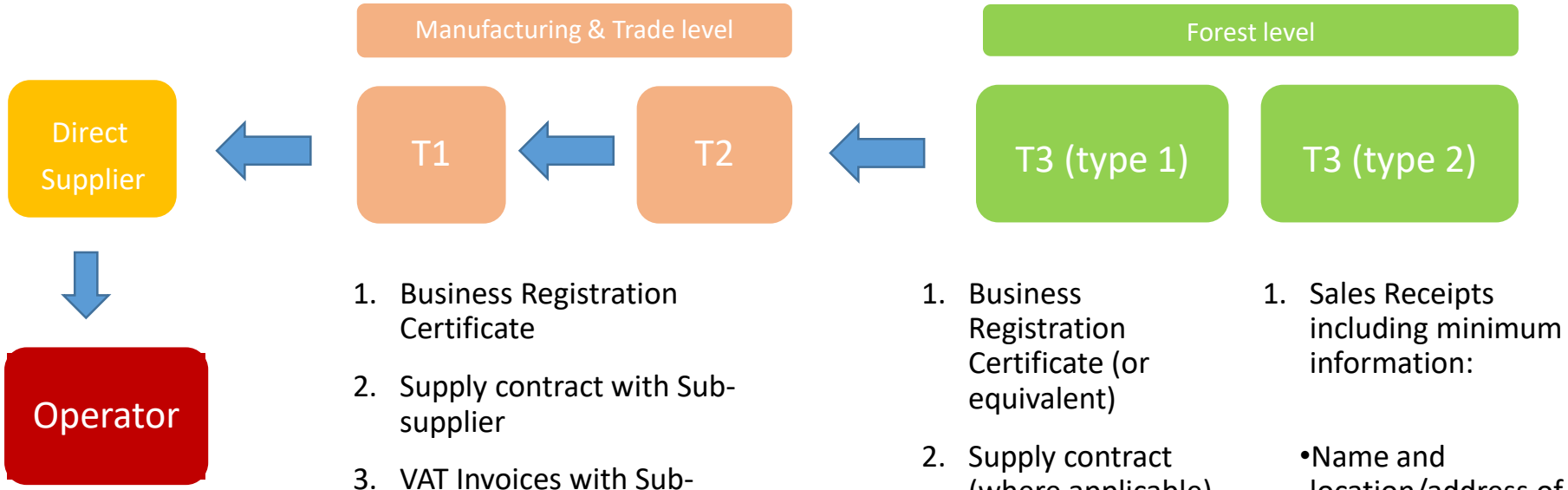
Plywood

Supply Chain Issue	Explanation	Required Action
Spot Markets, Auctions and open-market purchasing	The problem of these types of markets is that the traceability of wood products is usually lost.	We do not accept that raw materials are sourced from such markets. These must be eliminated from our supply chains.
Non-Cooperative Sub-Suppliers	Situations may arise where sub-suppliers are not willing or able to collaborate with you to supply such information.	Non-cooperative sub-suppliers may result in our not being able to meet our legal obligations.

Plywood

3: Supplier Minimal Information system

Minimum information required to provide confidence about origin, species and legality



1. Business Registration Certificate
2. Supply contract with Sub-supplier
3. VAT Invoices with Sub-supplier
4. Processing certificate (if entity is a manufacturer
5. Transportation Licence (or Delivery Note where licence is not applicable)
6. Goods-in reception log

1. Business Registration Certificate (or equivalent)
2. Supply contract (where applicable)
3. VAT Invoices (where applicable)
4. Harvesting licence
5. Transportation Licence (or Delivery Note where licence is not applicable)

1. Sales Receipts including minimum information:

- Name and location/address of Seller
- Species
- Volume/No. Logs
- Buyer details
- Date

Oak furniture

Supplier provided:

- Invoices and delivery notes between some but not all tiers
- Harvest document for forest
- Certificate of Origin
- Volumes purchased and sold
- Customs documentation for export from China

Oak furniture

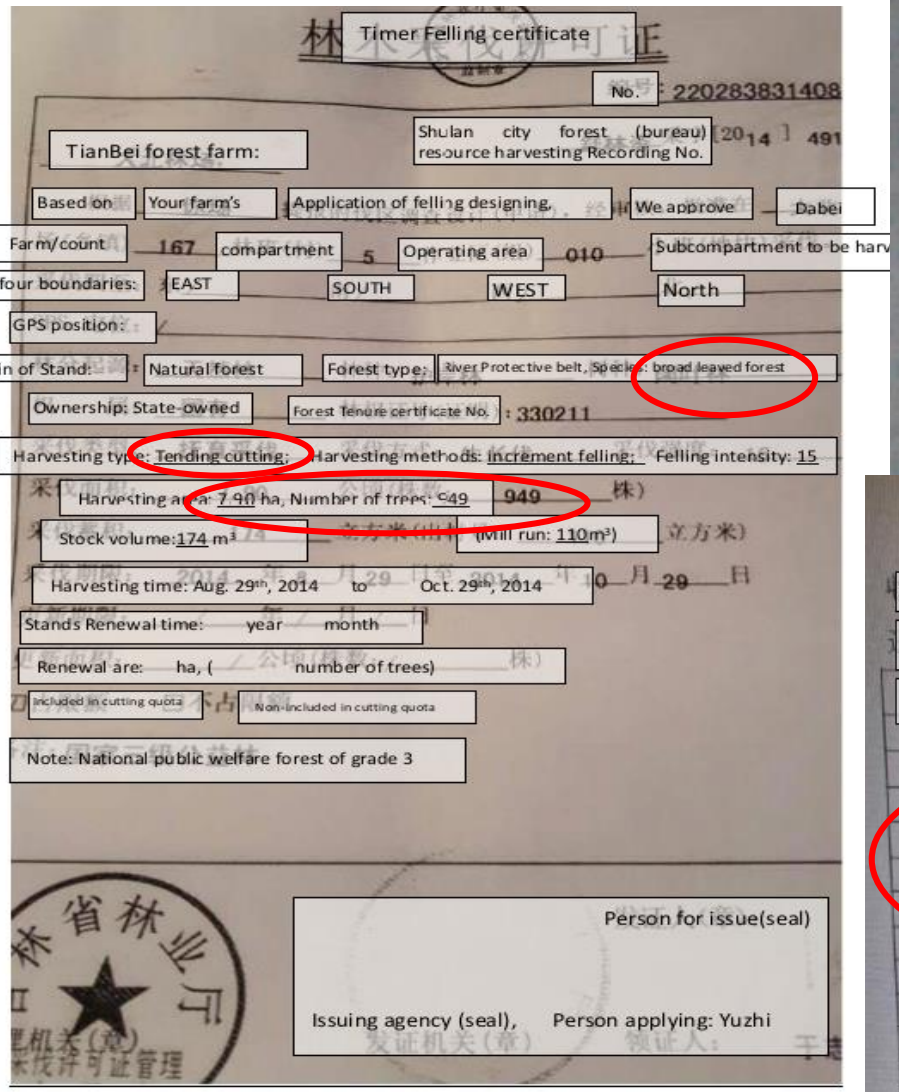
Retailer ← ←

Tier	Tier 0	Tier 1	Tier 2
Location	Germany	Shanghai, China	North-East China
Certification	None	Unknown	Unknown
Species	(Oak) *Quercus mongolica*	(Oak) *Quercus mongolica*	(Oak) *Quercus mongolica*





Oak furniture



Timer Felling certificate

No.: 220283831408

Shulan city forest (bureau) resource harvesting Recording No. [2014] 491

TianBei forest farm:

Based on Your farm's Application of felling designing, We approve Dabei

Farm/count 167 compartment 5 Operating area 010 Subcompartment to be harv

The four boundaries: EAST SOUTH WEST North

GPS position:

Origin of Stand: Natural forest Forest type: River Protective belt, Species: broad leaved forest

Ownership: State-owned Forest Tenure certificate No.: 330211

Harvesting type: Tending cutting; Harvesting methods: increment felling; Felling intensity: 15

Harvesting area: 7.90 ha, Number of trees: 949

Stock volume: 174 m³ (Mill run: 110m³)

Harvesting time: Aug. 29th, 2014 to Oct. 29th, 2014

Stands Renewal time: year month

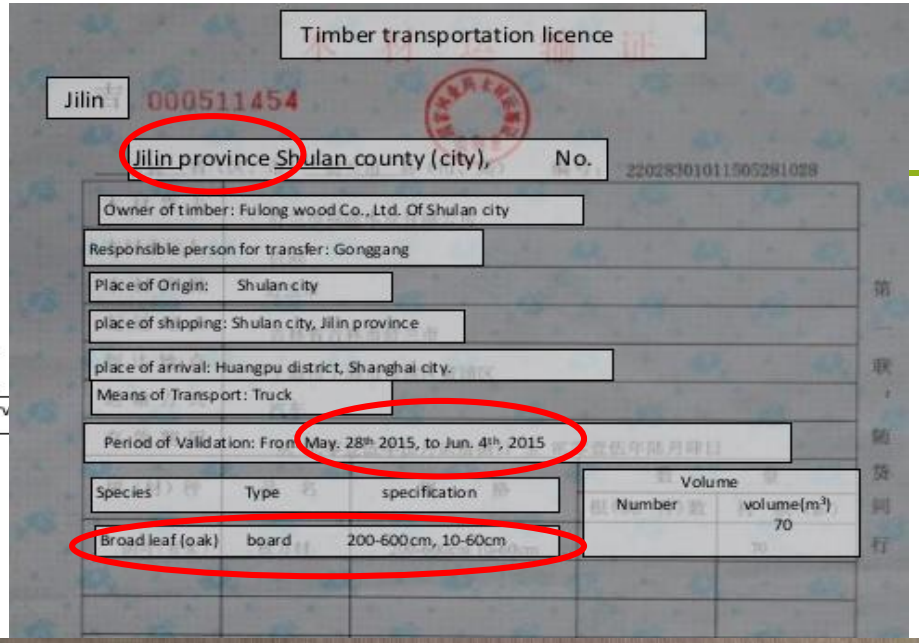
Renewal are: ha, (number of trees)

Included in cutting quota Non-included in cutting quota

Note: National public welfare forest of grade 3

Person for issue(seal)

Issuing agency (seal), Person applying: Yuzhi



Timber transportation licence

Jilin 000511454

Jilin province Shulan county (city), No. 220283010115052810 28

Owner of timber: Fulong wood Co., Ltd. Of Shulan city

Responsible person for transfer: Gonggang

Place of Origin: Shulan city

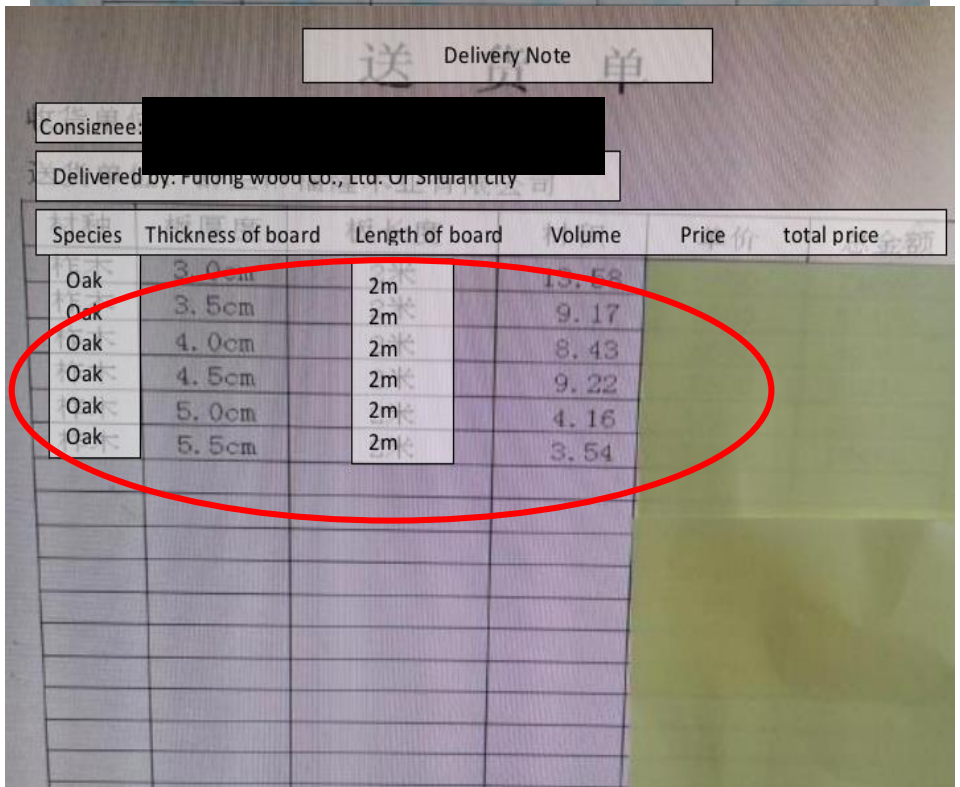
place of shipping: Shulan city, Jilin province

place of arrival: Huangpu district, Shanghai city.

Means of Transport: Truck

Period of Validation: From May. 28th 2015, to Jun. 4th, 2015

Species	Type	specification	Volume Number	Volume(m³)
Broad leaf (oak)	board	200-600cm, 10-60cm		70



Delivery Note

Consignee: [redacted]

Delivered by: Fulong wood Co., Ltd. Of Shulan city

Species	Thickness of board	Length of board	Volume	Price	total price
Oak	3.0cm	2m	13.58		
Oak	3.5cm	2m	9.17		
Oak	4.0cm	2m	8.43		
Oak	4.5cm	2m	9.22		
Oak	5.0cm	2m	4.16		
Oak	5.5cm	2m	3.54		

Oak furniture





Mongolian oak from Primorsky Province, Russian Far East

Oak furniture

Expansion in 2015

Expand to the key state-owned forests in Jilin & Inner Mongolia **at April 1, 2015**



Oak furniture

Risk Topic	*Risk key*
Access to information	
FLEGT license	N/A
UN/ EU Sanctions	
CITES-listed species	
Certification	
Species Risk	
Origin Risk	
Trade & Transport risk	
Illegal transfer pricing	
Contamination and substitution risk	



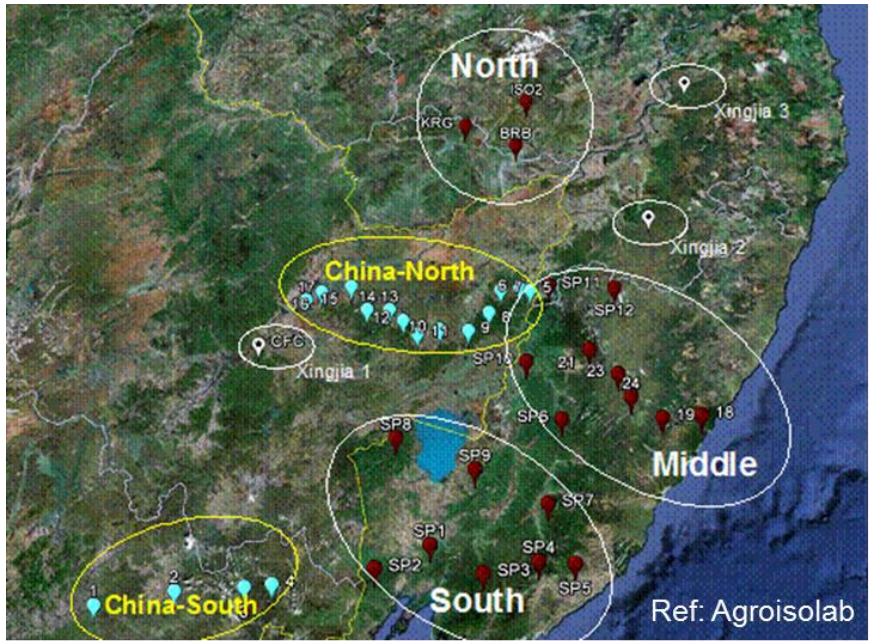
Origin

- China CPI = 27
- Risk of mixing: NE China and Russia
- Logging ban in Jilin (effective 1st April 2015)
- Russian origin? Start again

Oak furniture

Risk Assessment

- ✓ Sent products to Agroisolab
- ✓ Tested for origin
- ✓ Results showed more likely origin is Russian Far East (RFE)



Mitigation Actions:

- ✓ EUTR & Risk training to factory staff
- ✓ Change source to US Oak
- ✓ Implement document checking procedure
- ✓ Help supplier implement CoC system
- ✓ Regular re-testing to ensure only US Oak present

Time for

