

Exploring due diligence: what does it mean in practice?





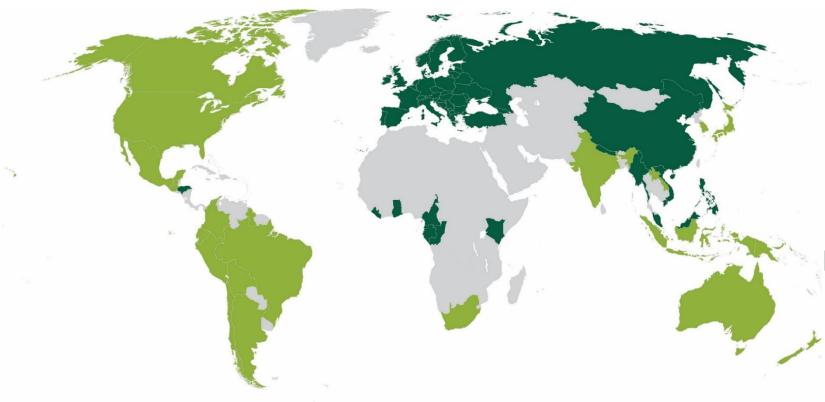
Emner



- Importørens forpligtelser
- Due Diligence hvilke krav stiller loven?
- Dokumenter hvordan de kan bruges og misbruges
- Muligheder for test af træprøver
- Hvordan certificering kan bruges i et due diligence system
- Henvisninger til resource I frit kan gøre brug af

Our Team and Projects around the world





100+ full-time staff

19 countries

23 nationalities



Network of 160+ consultants

13 legal entities

across Europe,

Russia and Asia

We have implemented 100+ projects on natural resources management



Certification Services





We have certified over

31 million ha of FSC forestland





In more than 15 countries

Certification Services







We provide **certification** to more than

1500

companies

In more than

25

countries



Projects







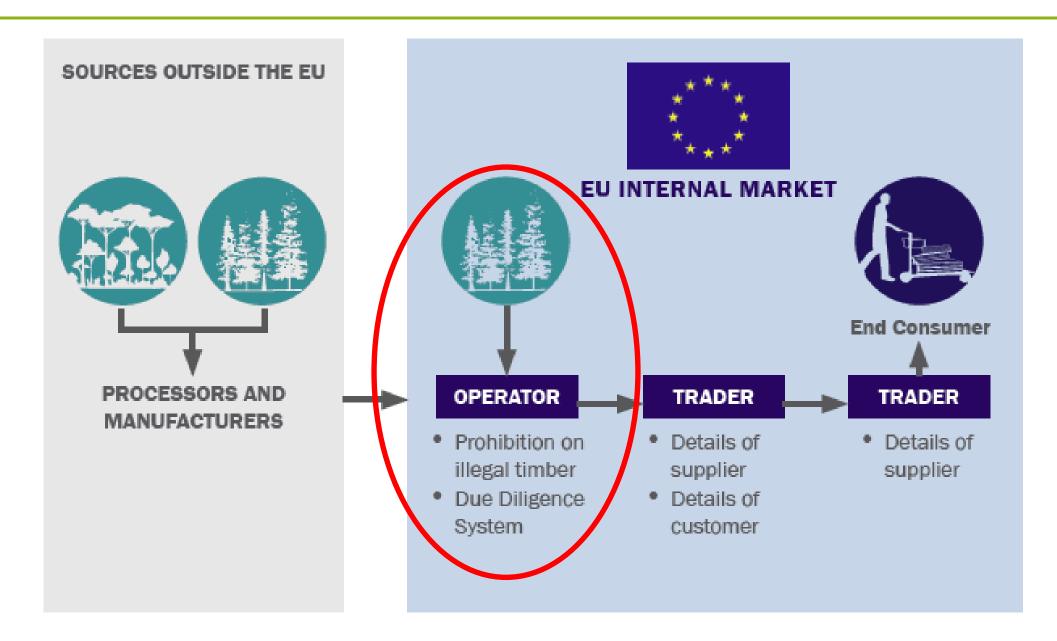


Projects
building
capacity of
small and
medium-sized
enterprises

(SMEs) in
Vietnam &
Cameroon to
provide legal
timber

EU Timber Regulation - Roles & Responsibilities





Operator's Obligations recap



1

Placing on the market of illegally harvested timber or timber products shall be prohibited

2

Exercise due diligence through system and procedures

3

Maintain and regularly evaluate the due diligence system



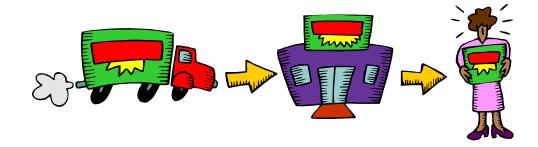


...through systems and procedures enabling:

- 1. Access to information
- 2. Risk assessment
- 3. Risk mitigation

"A 'due diligence system' can be described as a documented, tested, step-by-step method, including controls, aimed at producing a consistent desired outcome in a business process"

Source: EU Guidance document









- ✓ Commit to legal sourcing
- Establish responsibilities & assure competence
- ✓ Establish procedures
- ✓ Initiate performance monitoring
- ✓ Define scope of supply chain & products

- ✓ Evaluate supply chain info
- ✓ Identify risks:
 - forest management level
 - supplier level
 - risks of mixing and substitution
- ✓ Specify risks where identified

Quality Management Access to Information Risk assessment Risk mitigation

- ✓ Record supply chain info:
 - origin
 - suppliers
 - species
 - legality documentation
- ✓ Collect additional supply chain info

Mitigation options

- ✓ Additional documentation
- Replace supplier
- ✓ Source certified material
- ✓ Supply chain verification audits





- Product type
- Species
- Origin
- Quantity
- Supplier (tier 1)
- Documents or other information indicating legal compliance

Origin = Country, and if applicable, region or concession







"It should be stressed from the outset that collecting documentation must be done for the purposes of the risk assessment and should not be viewed as a self-standing requirement."

Source: EU Guidance document



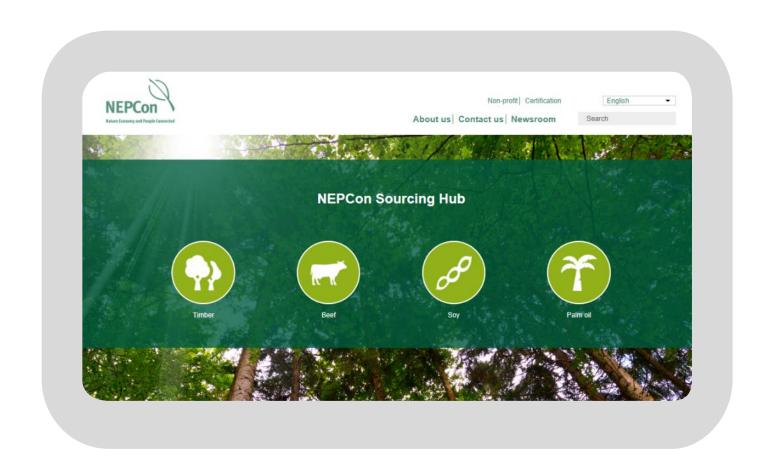


Information Sources



Access to General Information – Origin Risk



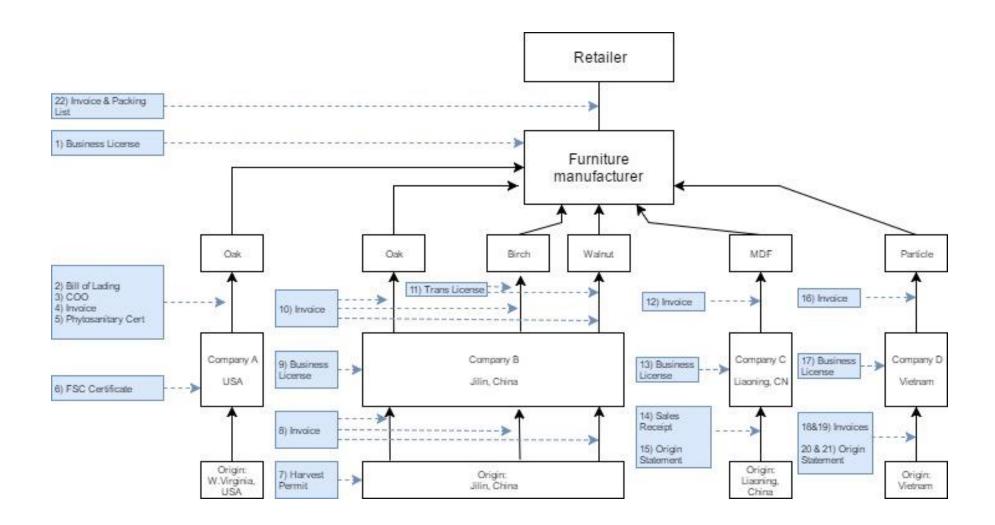


www.nepcon.org/sourcinghub

2. Access to information – Supply chain specific



Supply chain documents



2. Access to information – Supply chain specific



Audits & On-site visits

Observation of the supplier facilities, practices and supply chains may occur during on-site visits **or** formal legality audits.

Let's look at some examples...





3. Risk assessment

3. Risk Assessment

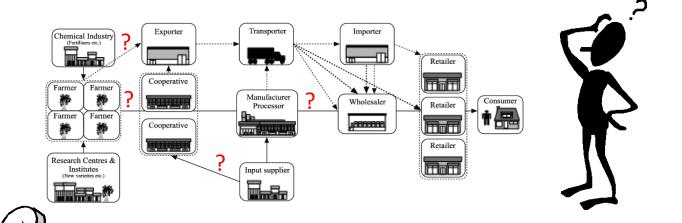


Objectives



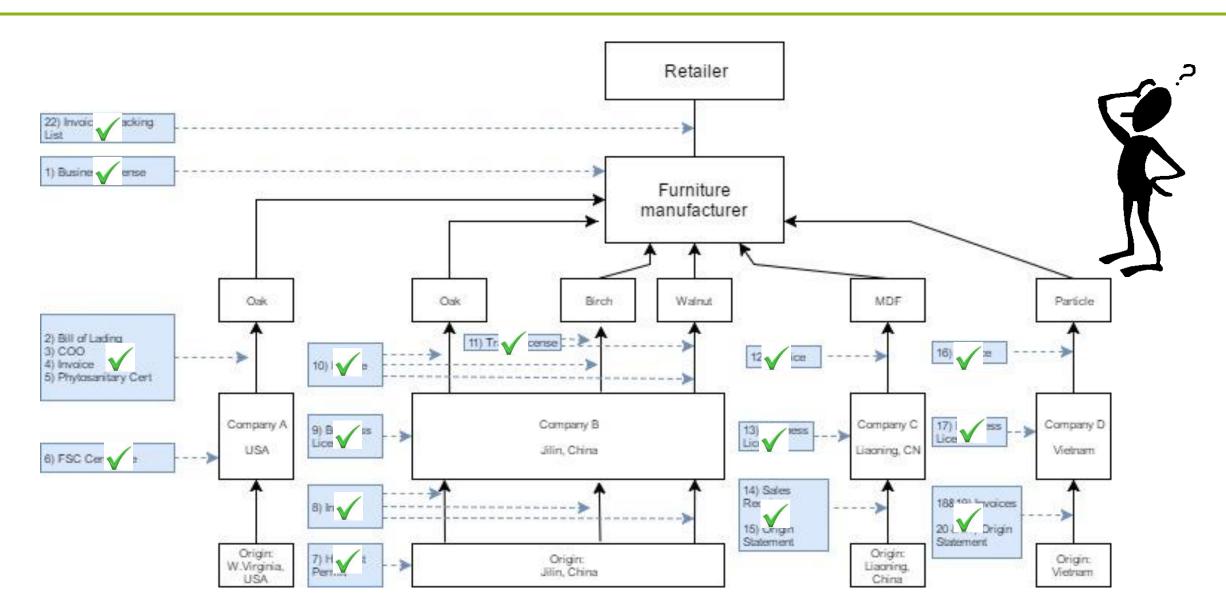
- Identify where risks may exist in supply chains
- Specify risks to a level that enables effective risk mitigation.

- Evaluate the risk that forest products are:
 - Illegally harvested,
 - Illegally transported/traded, or
 - Mixed with material with illegal or unknown origin.



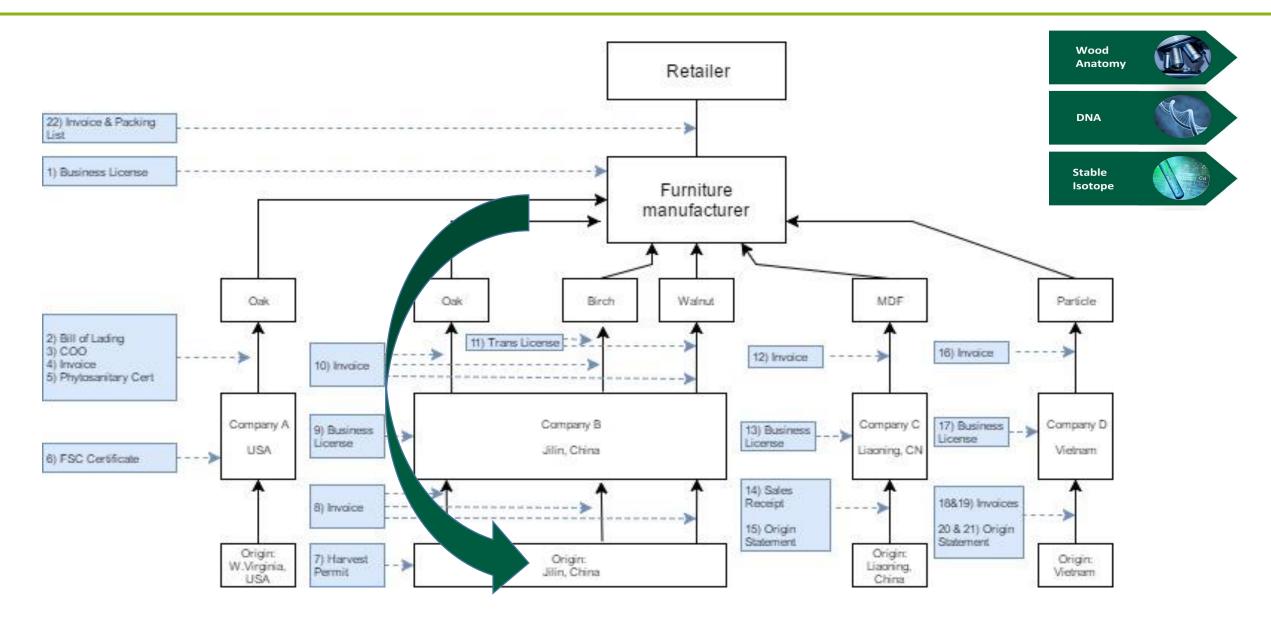
3. Risk Assessment – FSC / PEFC certification





3. Risk Assessment – Timber Testing

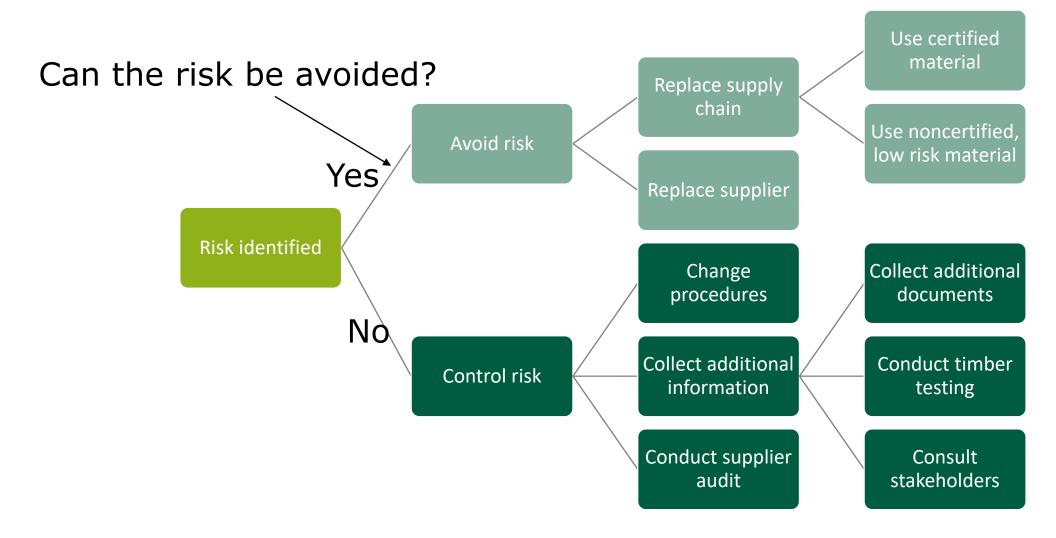




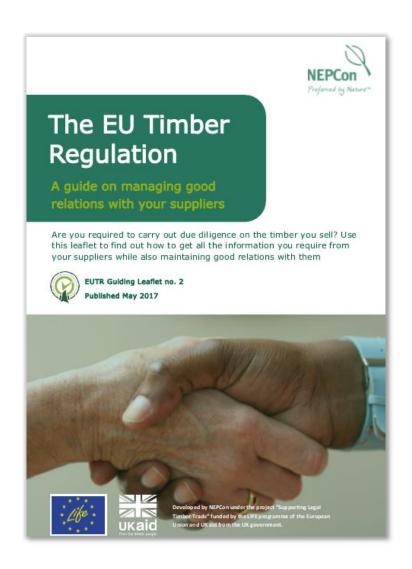




Process can take different paths: avoidance or mitigation







Good supplier relations is key

https://nepcon.org/library/guide/eutrsupplier-relations-leaflet



Timber transportation licence Mongolian oak from Jilin Province, China Origin Mongolian oak from Primorsky **Province, Russian Far East**

Ca

Or



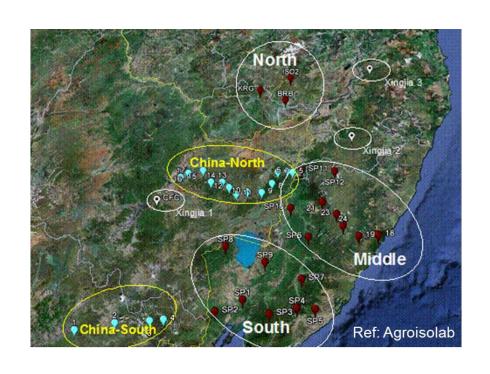
Case Study Origin Testing for Oak Furniture

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





5. Documents

Documents



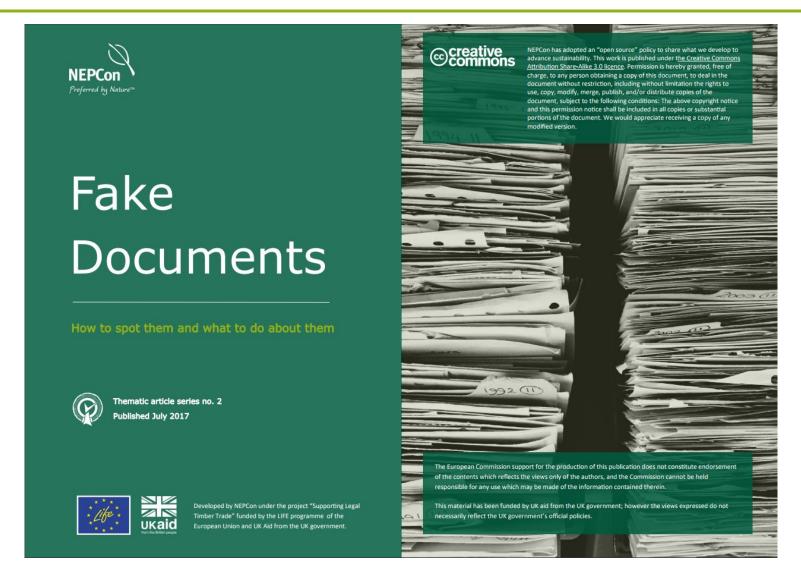
"Is this enough?" Wrong question!

- 1. Relevance: What does the information tell you about risk of illegality?
- 2. Validity: Is the information genuine?
- 3. Relatedness: Does the information apply to your supply chain or shipment?



Documents





https://nepcon.org/library/guide/thematic-article-fake-documents



6. Timber testing

Timber testing



14 out of 16 companies supplied an insufficient due diligence procedure (88%)

Further issues arose with testing...

Company	Face declaration	Face tested	Core declaration	Core tested
1	Palaquium	Palaquium	Eucalyptus	Eucalyptus
2	Betula	Betula	Eucalyptus	Poplar
				Kedongdong
				Pine
3	Sapeli	Sapeli	Poplar	Poplar
				Elm
4	Palaquium	Palaquium	Poplar	Poplar
			Eucalyptus	Kasai
5	Bitangor	Palaquium	Poplar	Poplar
				Eucalyptus
6	Lotofa	Sapeli	Poplar	Poplar
7	Beech	Beech	Eucalyptus	Eucalyptus
8	Eucalyptus	Ozigo	Eucalyptus	Eucalyptus
				Poplar
9	-	Phenolic resin	Poplar	Poplar
10	Sapeli	Sapeli	Poplar	Poplar
11	Palaquium	Palaquium	Eucalyptus	Poplar
				Pulai
				Red Meranti
12	Eucalyptus	Bitangor	Eucalyptus	Eucalyptus
				Poplar
13	Bitangor	Bitangor	Poplar	Kasai
				Medang

Timber testing



Wood Anatomy



• Identify species to genus level (e.g. *Quercus* spp.)

DNA



- Identify species to species level (e.g. *Quercus robur*)
- Identify geographic origin

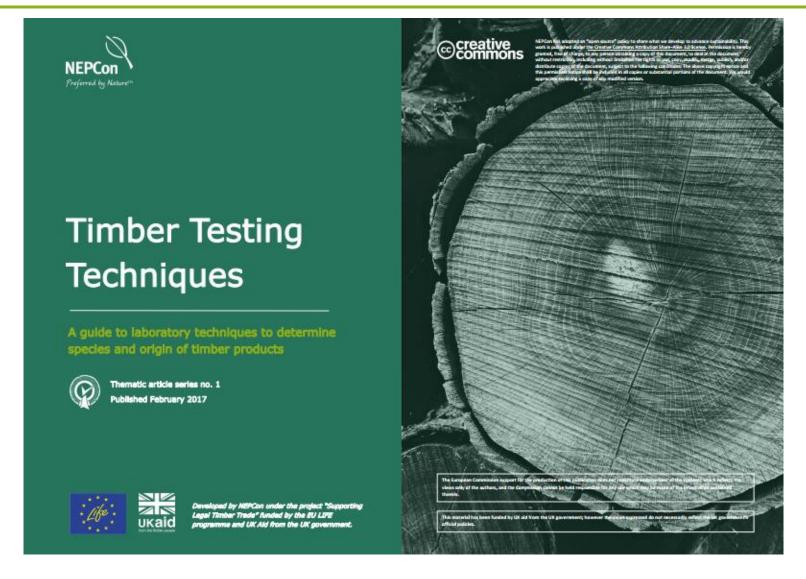
Stable Isotope



Identify geographic origin

Timber testing





https://nepcon.org/library/guide/thematic-article-no-1-timber-testing-techniques





Using certified material – is it a green lane?







NO! Remember:

- Not <u>proof</u> of legality
- May be used in the risk assessment
- The EU list requirements for certification systems (Implementing Reg. 607/2012).

Reality...

Certification plays a key role in mitigating risk of illegal harvesting for many importers.



Do all schemes ensure legality?







Meets Rainforest Alliance requirements for Verified Legal Compliance









Meets Rainforest Alliance standards for Verified Legal Origin















Origine et legalité du bois





Checking certificates online

- Validity is the certificate still active?
- Scope what sites, products and species does it cover?

FSC: http://info.fsc.org/certificate.php

PEFC: http://www.pefc.org/find-certified/certified-

<u>certificates</u>



Just because the organisation is certified, doesn't mean the products are!



Checking the documents

FSC

The sales invoice **and** delivery document should include:

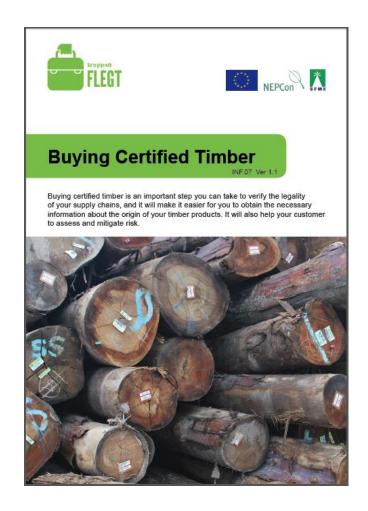
- Certificate code in format XX-COC-XXXXXXX
- FSC 'Claim' e.g. FSC 100%, FSC Mix Credit, FSC Mix 70%

PEFC

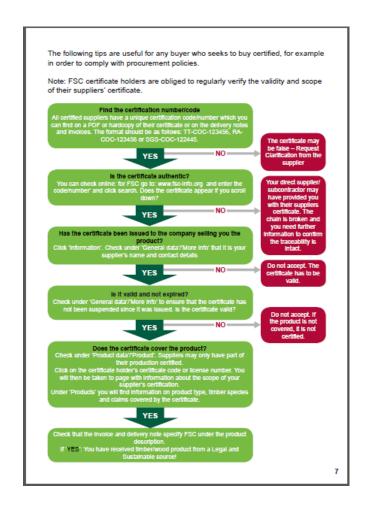
The sales invoice **or** delivery document should include:

- Certificate code e.g. NC-PEFC/COC-000084, CH12/0441
- PEFC 'Claim' e.g. x % PEFC certified









https://flegttools.files.wordpress.com/2014/12/inf-07-buying-certified-timber-booklet-en-v1-1-10jul15.pdf

Time for:



