



Timber



Palm Oil



Beef



Soy

How to use the NEPCon Sourcing Hub in a due diligence process

Autumn 2017



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Firstly:

- Due diligence recap

NEPCon Sourcing Hub:

- Risk Assessments
- Tools for establishing a due diligence system
- Country-specific tools on the sourcing hub

- 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

What is due diligence?

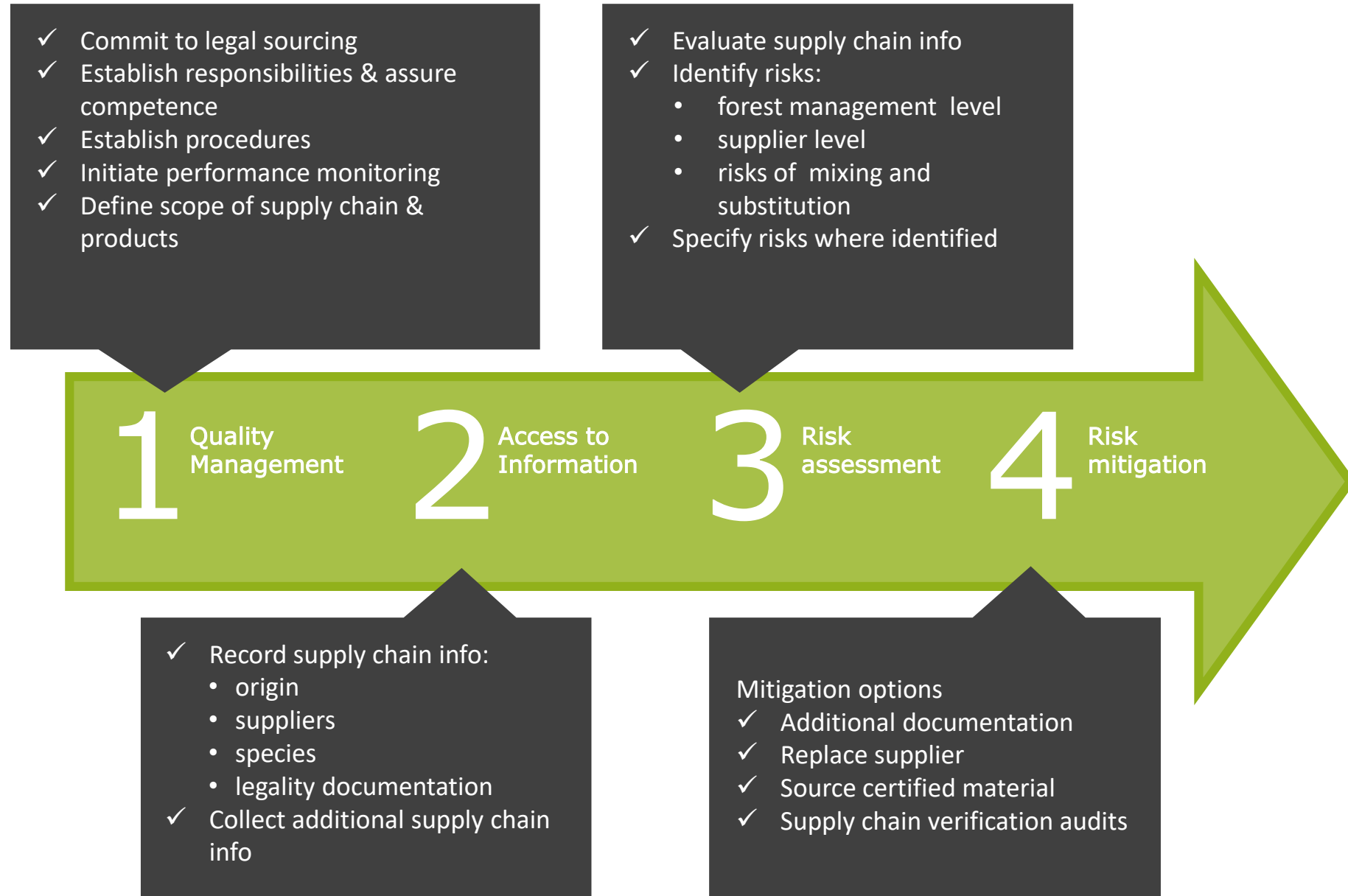
...through systems and procedures enabling:

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

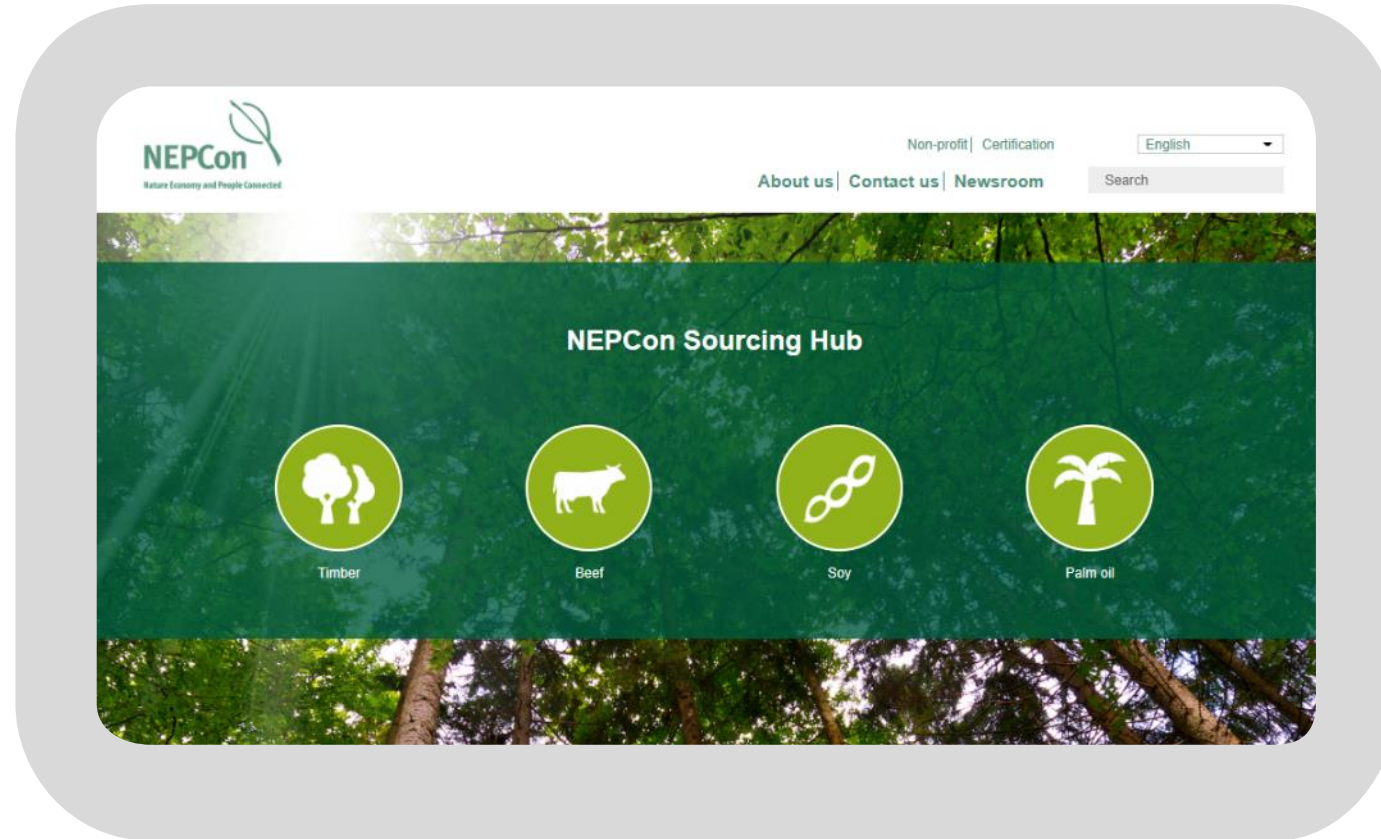
“A ‘due diligence system’ can be described as a **documented, tested, step-by-step method**, including controls, aimed at producing a consistent desired outcome in a business process”

Source: EU Guidance document

What is due diligence?



Launched August 2017... v1.0



www.nepcon.org/sourcinghub

What about timber from Indonesia?

- 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:

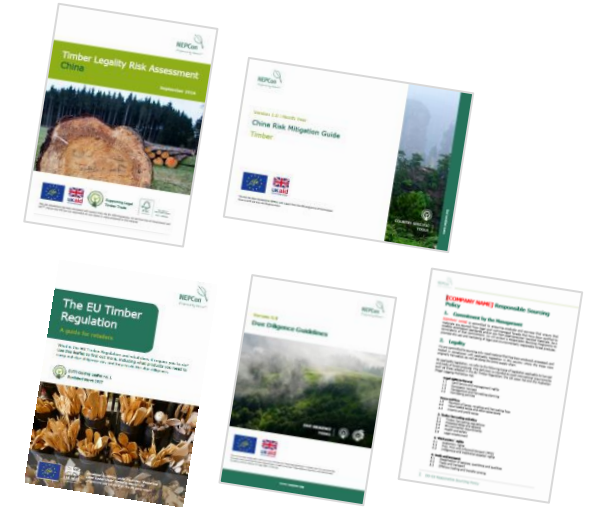
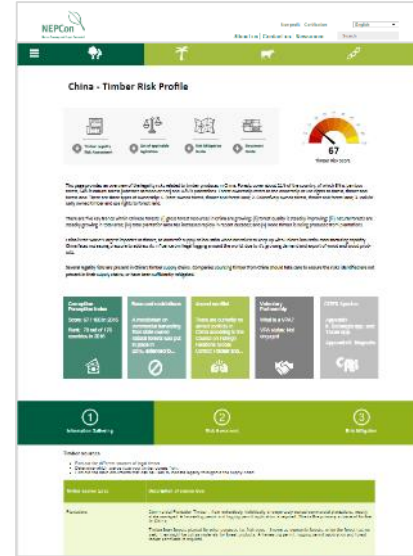
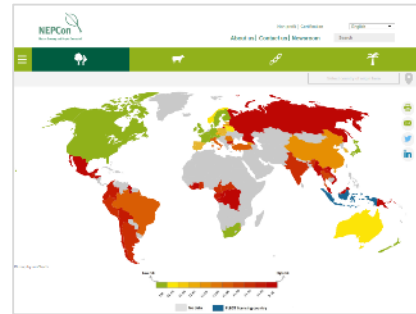
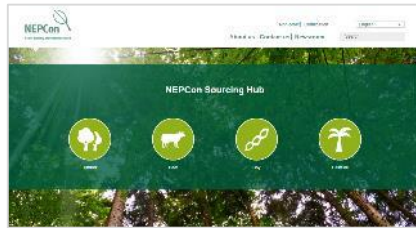
- You will receive a FLEGT Licence from your supplier prior to the export of the product from Indonesia.
- You must submit the electronic FLEGT licence to your Competent Authority for verification **before** the shipment arrives in the EU and before any customs declaration is made.



via Rio Budi Rahmato



Everything you need for due diligence in one place



1

SELECT
commodity

2

ACCESS
an overview map of
sourcing risks
+
SELECT
country for details

3

VIEW
country detailed risk data
(e.g. risks related to each
type of forest
production...)

4

EXPLORE
a suite of country
guidance and due
diligence tools to
mitigate the risks

Country specific guidance



Full Timber Legality Risk Assessment for all 62 countries



An overview of the relevant laws in a country from the **List Applicable Legislation**



Risk Mitigation guide to help identify the risks in the supply chain and what to do about them for a supply country



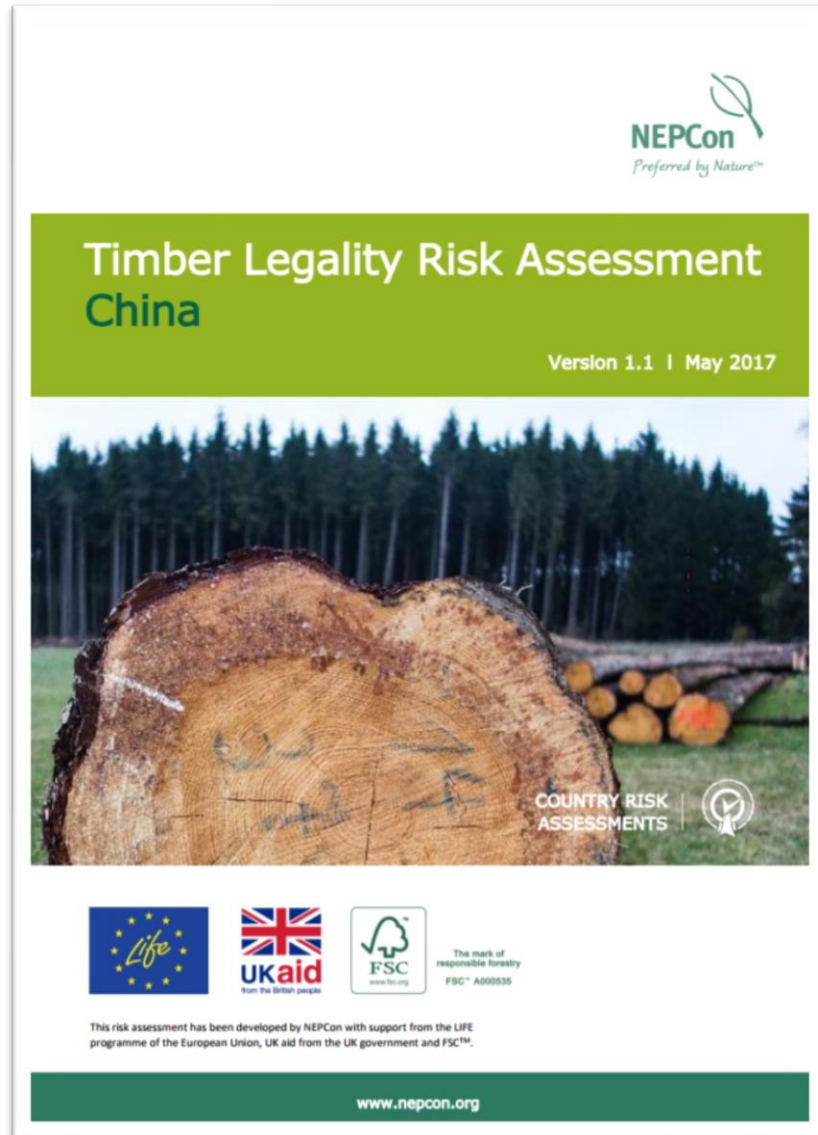
Document Guide to help determine exactly what type of documents to request from the suppliers, what they should look like and how to verify their authenticity

Due Diligence tools



- Supplier Letters
- Due Diligence Guidelines
- Supplier Managing Form
- Risk Checklists
- Policy template
- Supplier Information Form
- etc.

Risk assessments...



The **heart** of the Hub

In partnership with the **Forest Stewardship Council**

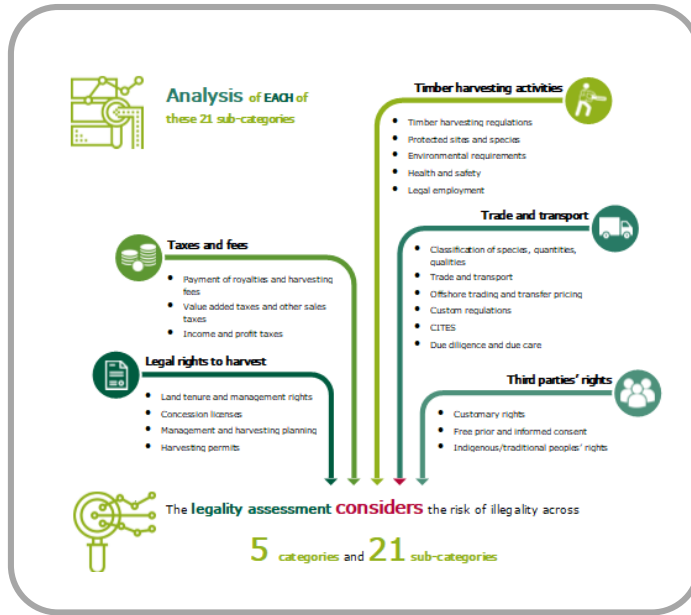
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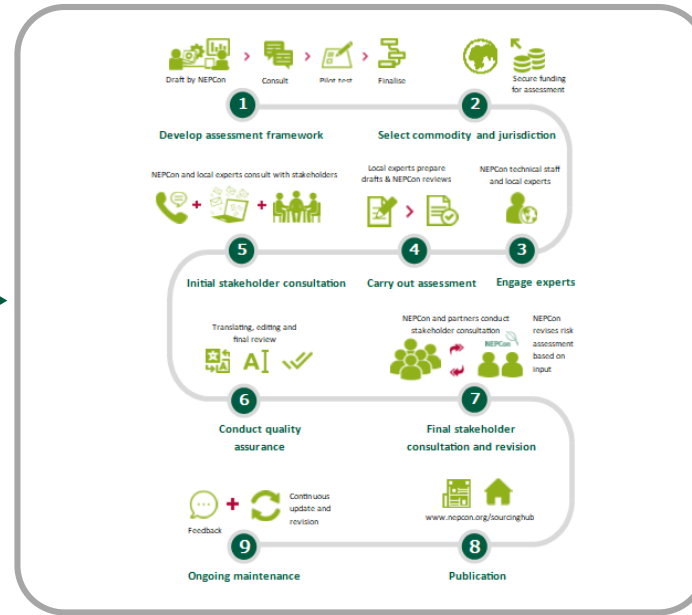


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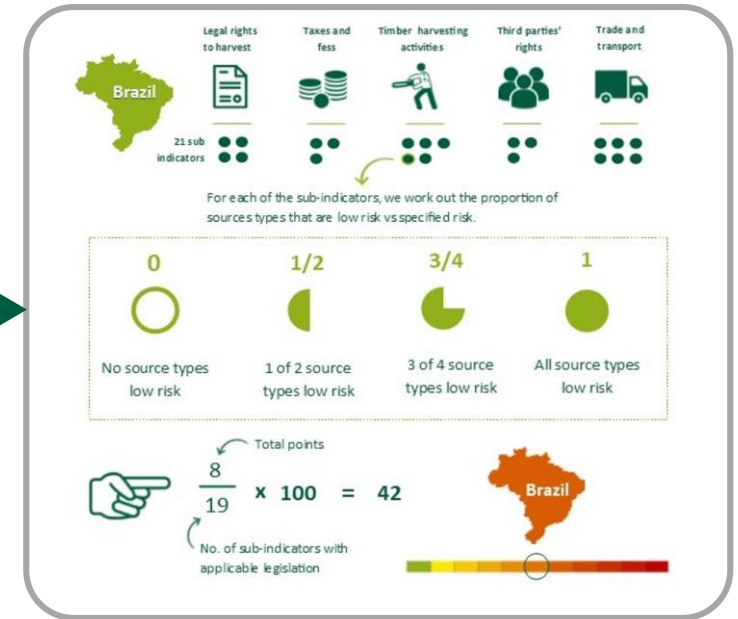
Risk assessments – development process



DEVELOP
the risk assessment framework for the commodity, e.g. defining (sub)categories



CONDUCT
risk assessments
+
CONCLUDE
the risk for each of the sub-categories



CALCULATE
the score for each country
+
COLOUR CODE
in the map

Comprehensive...

Legality category

Legality Sub-Category



Legal rights
to harvest

- Land tenure and management rights
- Concession licenses
- Management and harvesting planning
- Harvesting permits



Taxes & fees

- Payment of royalties and harvesting fees
- Value added taxes and other sales taxes
- Income and profit taxes

1. What does the law require?
2. Who is the government authority responsible for that law/s?
3. What are legal documents required?
4. What are the risks that the law is not complied with?
5. What risk mitigation actions can be taken to reduce the risk?
6. Sources of information

- Timber harvesting regulations
- Protected sites and species
- Environmental requirements
- Health and safety
- Legal employment

- Customary rights
- Free, Prior and Informed Consent
- Indigenous peoples rights



Trade & transport

- Classification of species, quantities, qualities
- Trade and transport
- Offshore trading and transfer pricing
- Custom regulations
- CITES

A Due Diligence System

1. Quality management

1. Quality management

Why are procedures needed?

- To provide a **systematic framework** for exercising due diligence and making it functional
- Enable systematic implementation and **external evaluation** of the system



UK Competent Authority (2015):

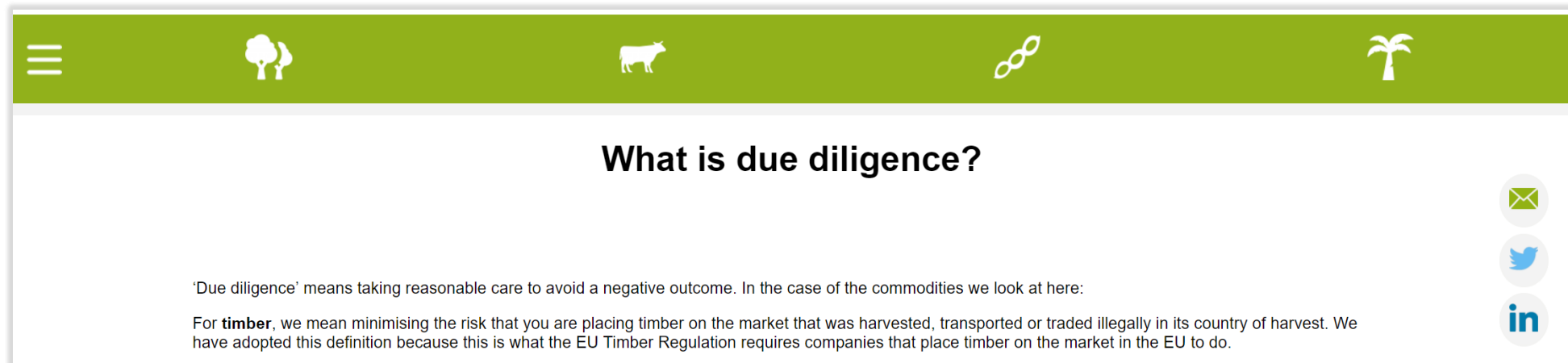
"...a lack of narrative explaining how the combination of document gathering, risk assessment and mitigation... enable the company to reach a conclusion of negligible risk"

1. Quality management

The Sourcing Hub contains extensive information about how to set up your due diligence system (DDS).

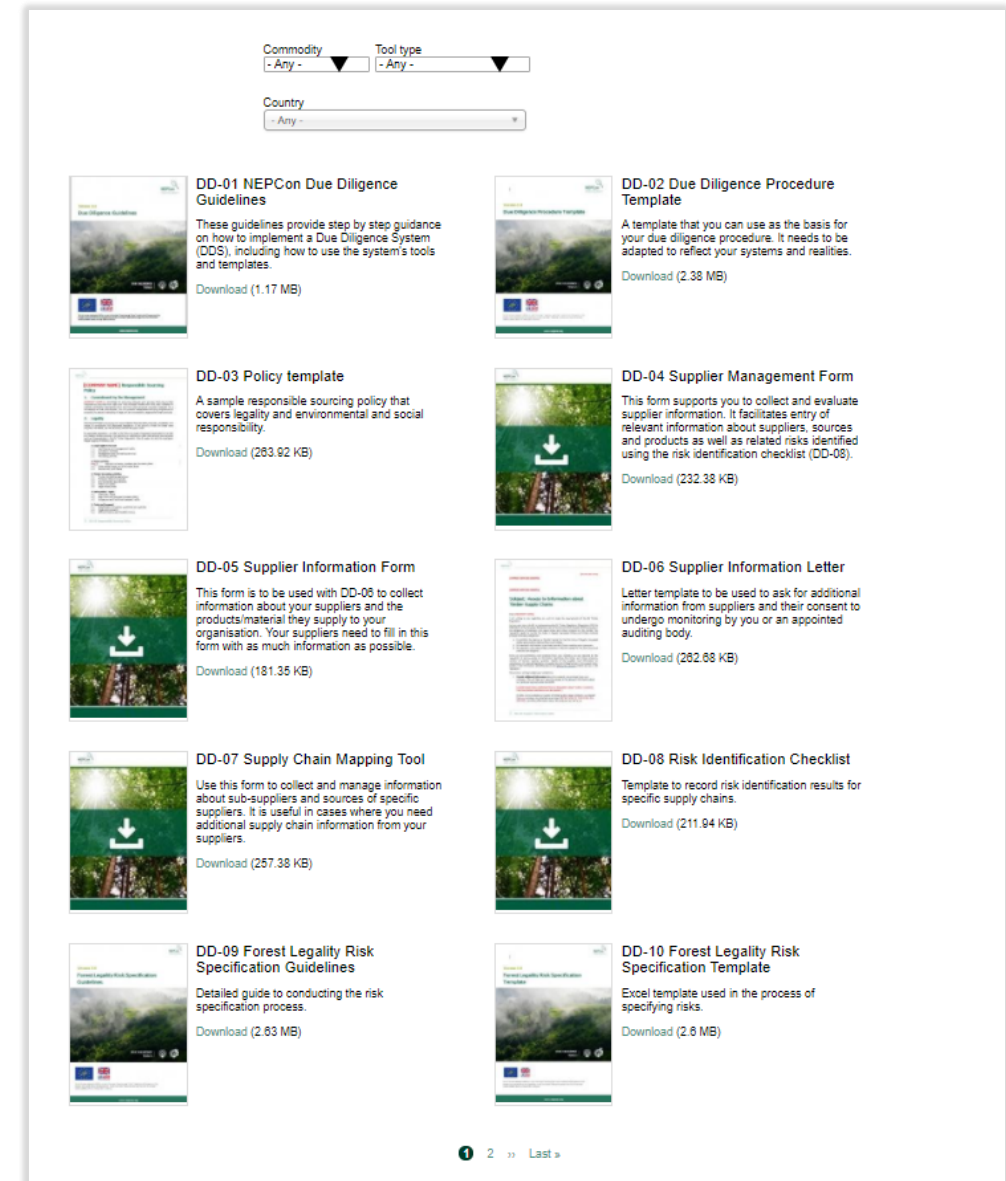
The NEPCon DDS includes several **templates** that may be used to ensure that systems and procedures are developed and implemented effectively.

You can download all the **tools** and **templates** you need to set up a due diligence system in your business on the Sourcing Hub.



1. Quality management

- Download the full NEPCon Due Diligence system on the Sourcing Hub
- <http://www.nepcon.org/sourcinghub/info/what-due-diligence>



The screenshot displays a web interface for downloading NEPCon Due Diligence documents. At the top, there are three filters: 'Commodity' (set to '- Any -'), 'Tool type' (set to '- Any -'), and 'Country' (set to '- Any -'). Below the filters is a grid of 10 document cards, each with a thumbnail image, a title, a brief description, and a 'Download' button with the file size.

ID	Title	Description	Download Size
DD-01	NEPCon Due Diligence Guidelines	These guidelines provide step by step guidance on how to implement a Due Diligence System (DDS), including how to use the system's tools and templates.	1.17 MB
DD-02	Due Diligence Procedure Template	A template that you can use as the basis for your due diligence procedure. It needs to be adapted to reflect your systems and realities.	2.38 MB
DD-03	Policy template	A sample responsible sourcing policy that covers legality and environmental and social responsibility.	263.92 KB
DD-04	Supplier Management Form	This form supports you to collect and evaluate supplier information. It facilitates entry of relevant information about suppliers, sources and products as well as related risks identified using the risk identification checklist (DD-08).	232.38 KB
DD-05	Supplier Information Form	This form is to be used with DD-06 to collect information about your suppliers and the products/material they supply to your organisation. Your suppliers need to fill in this form with as much information as possible.	181.35 KB
DD-06	Supplier Information Letter	Letter template to be used to ask for additional information from suppliers and their consent to undergo monitoring by you or an appointed auditing body.	262.68 KB
DD-07	Supply Chain Mapping Tool	Use this form to collect and manage information about sub-suppliers and sources of specific suppliers. It is useful in cases where you need additional supply chain information from your suppliers.	257.38 KB
DD-08	Risk Identification Checklist	Template to record risk identification results for specific supply chains.	211.94 KB
DD-09	Forest Legality Risk Specification Guidelines	Detailed guide to conducting the risk specification process.	2.83 MB
DD-10	Forest Legality Risk Specification Template	Excel template used in the process of specifying risks.	2.6 MB

At the bottom right of the interface, there is a pagination control showing '1 2 » Last »'.

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2. Information gathering

2. Information gathering

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

Origin = Country, and if applicable, region or concession



Supply chain information is **key!**

2. Information gathering



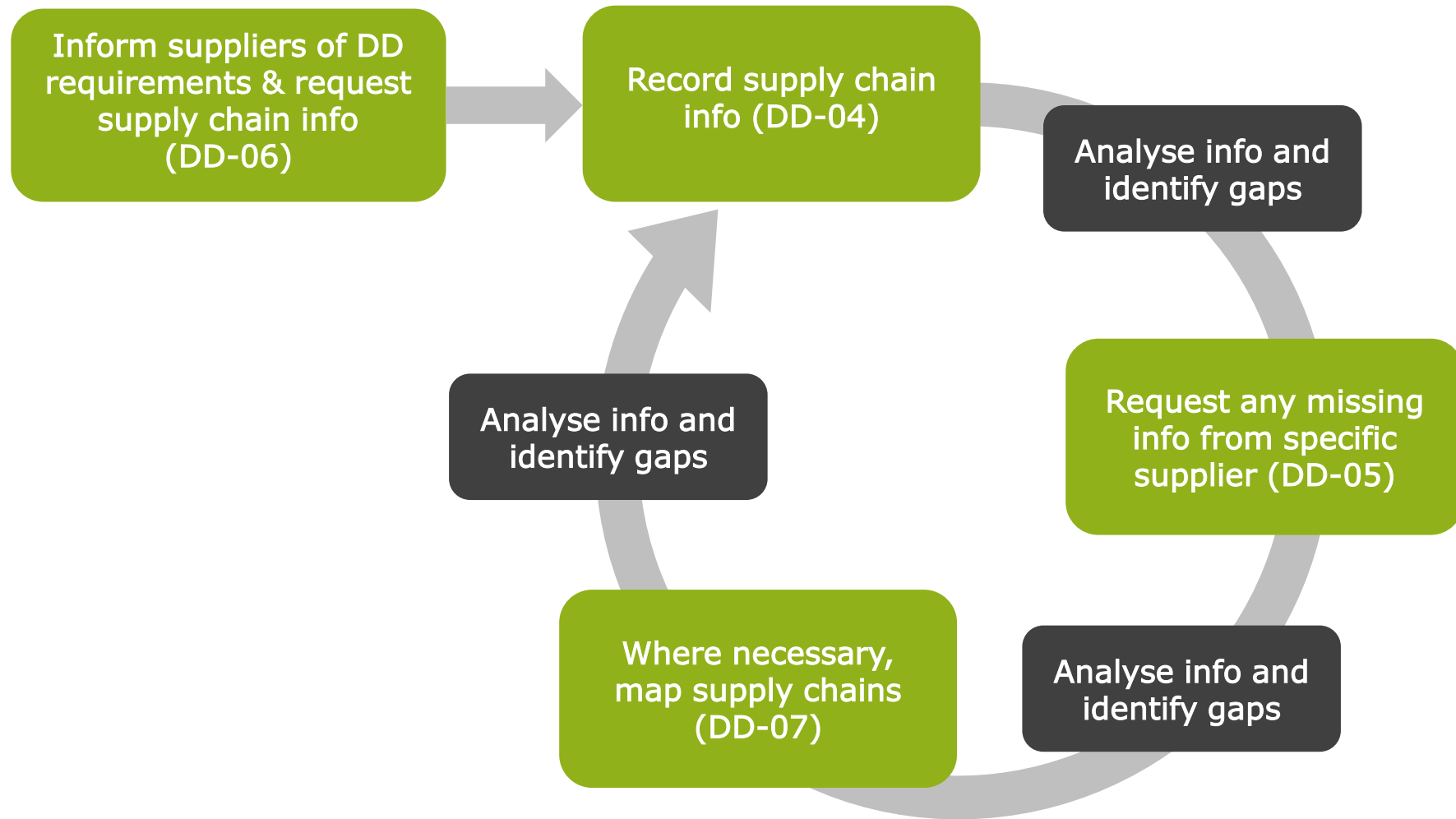
Important!

*"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



2. Information gathering



2. Information gathering

What do we mean by 'source type'?

- Forests in a country may face different levels and types of risks of illegality.
- Where the risks differ between different types we identify them.
- The different features of forests that we consider:
 - ✓ Forest type
 - ✓ Location
 - ✓ Legal status
 - ✓ Ownership
 - ✓ Management



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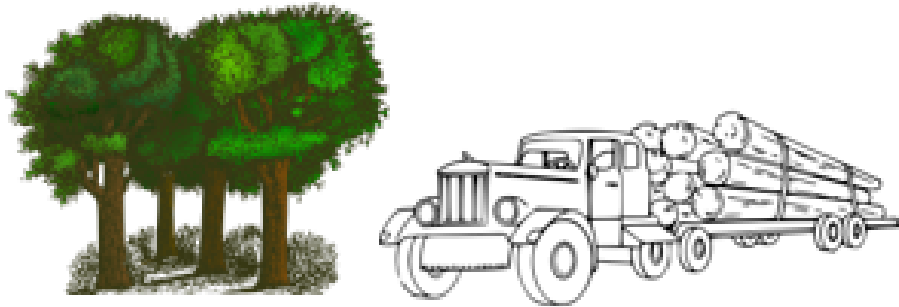
Palm oil

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3. Risk assessment

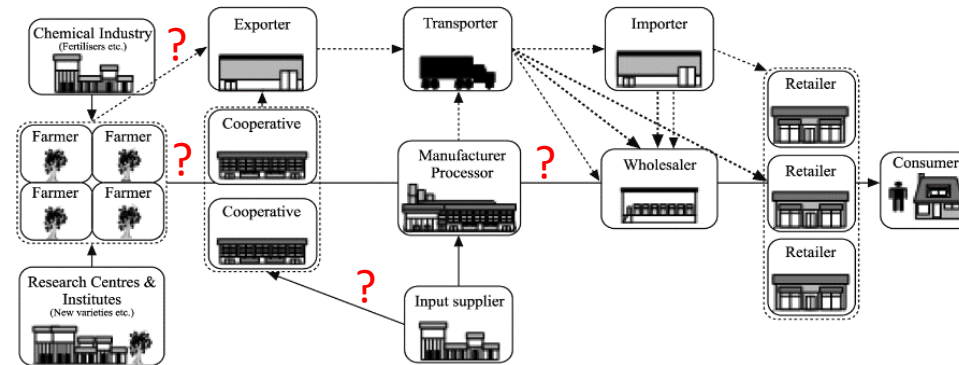
3. Risk Assessment

Objectives



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

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



3. Risk Assessment

Criteria shall include:

- **assurance of compliance** with applicable legislation which may include certification or other third-party verified schemes which cover compliance with applicable legislation
- prevalence of illegal harvesting of **specific tree species**
- **prevalence of illegal harvesting** or practices in the area of **origin**, including consideration of the prevalence of **armed conflict**
- UN Security Council or the Council of the EU **sanctions** on timber imports or exports
- **complexity of the supply chain** of timber and timber products

3. Risk Assessment

Risk conclusion

Negligible risk (low risk)

OR

Non-negligible risk (specified risk)



3. Risk Assessment

“negligible risk”

EUTR says “except where the risk identified in course of the risk assessment procedures is negligible” ... an Operator must mitigate the risks

Negligible risk should be understood to apply to a supply when, following full assessment of both the product-specific and the general information **no cause for concern** can be discerned.

EU Guidance Document

Additional tools to assist with the risk assessment process:

- Annex 2 of **DD-01** The Due Diligence Guidelines introduces the risk identification process.
- **DD-08** Risk Identification Checklist Template provides a template to conduct risk identification on specific supply chains.
- Record the risk conclusion in the **Supplier Management Form DD-04** to provide an overview of risk across all supply chains.
- **The Supply Chain Mapping Tool DD-07** can be used to record supply chain information at a detailed level.
- Annex 3 of **DD-01** The Due Diligence Guidelines provides guidance on how to specify risks
- **The Certification System Evaluation Checklist DD-13** can be used to record the certification scheme assessment.

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4. Risk mitigation

4. Risk Mitigation

If the risk of placing illegal timber on the market is not negligible, risk must be mitigated.

“Risk mitigation procedures [...] that are adequate and proportionate to minimise effectively that risk”

Risk mitigation measures may include:

- requiring additional information and documents from suppliers
- agreeing mitigation actions in collaboration with suppliers
- third party verification/certification
- Carry out supplier or forest verification audits to verify legal conformance
- Replacing suppliers

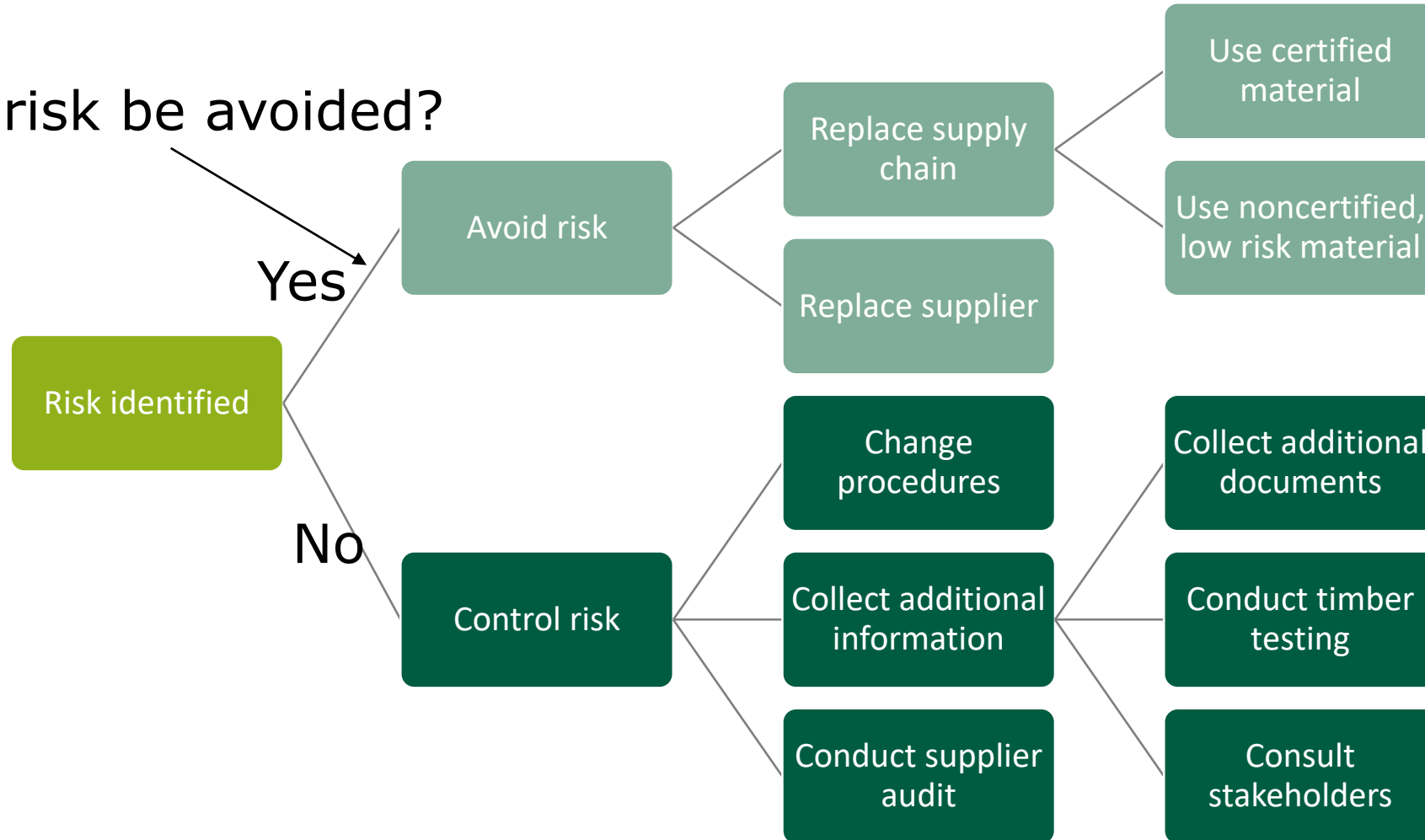
Identifying the appropriate action

- Mitigating measures shall address the specific risks identified
 - e.g. risk of lack of health & safety training for forest workers → request and verify training records, evidence of external audits
- Justify effectiveness
- Verify effectiveness

4. Risk mitigation

Process can take different paths: **avoidance or mitigation**

Can the risk be avoided?

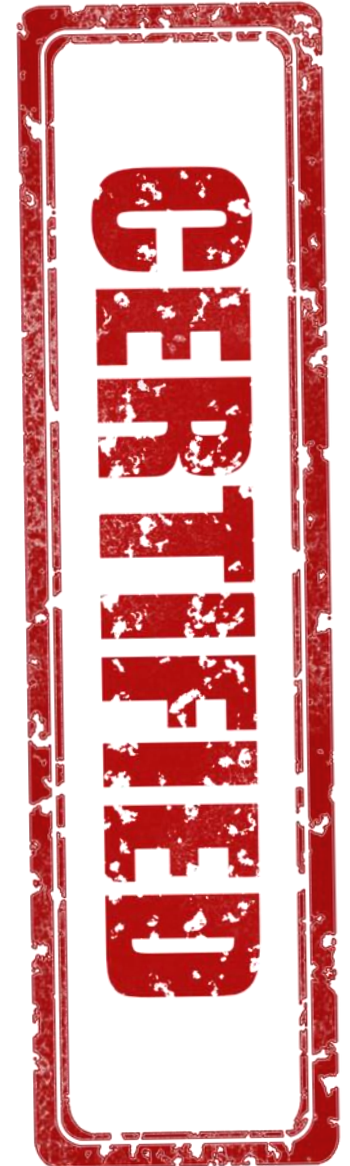


Using 3rd party certification to mitigate risk

The European Timber Regulation **does not** include an automatic “**green lane**” for certified products ... BUT ... it does recognise the value of certification as a tool for risk assessment and mitigation.

EUTR Guidance Document says that companies ...

"may rate credibly certified products as having negligible risk of being illegal, i.e. suitable for placing on the market with no further risk mitigation measures, provided that the rest of the information gathered and the replies to the risk assessment questions do not contradict such a conclusion."



Using 3rd party certification to mitigate risk

- ✓ Ensure the Certification system meets the requirements of the EUTR.
- ✓ Check whether the certification system adequately minimises the risk that illegal or unknown timber gets mixed in with your certified timber
- ✓ Check that your certified material is covered by a certificate that is authentic and valid



4. Risk mitigation



The cover of the leaflet features the NEPCon logo at the top right. The title 'The EU Timber Regulation' is in a dark green box, with the subtitle 'A guide on managing good relations with your suppliers' below it. A central text block asks if the reader is required to carry out due diligence on timber and provides instructions on how to get information from suppliers. It includes a circular icon with a magnifying glass and the text 'EUTR Guiding Leaflet no. 2 Published May 2017'. The bottom half of the cover shows a close-up of two hands shaking. Logos for the European Union (LIFE) and UKaid are at the bottom left, and a small text block at the bottom right credits NEPCon and the funding sources.

NEPCon
Preferred by Nature™

The EU Timber Regulation

A guide on managing good relations with your suppliers

Are you required to carry out due diligence on the timber you sell? Use this leaflet to find out how to get all the information you require from your suppliers while also maintaining good relations with them

 EUTR Guiding Leaflet no. 2
Published May 2017

  Developed by NEPCon under the project "Supporting Legal Timber Trade" funded by the LIFE programme of the European Union and UK aid from the UK government.

Good
supplier
relations
is key



<https://nepcon.org/library/guide/eutr-supplier-relations-leaflet>

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**Country
page**



**Risk
Assessment**



**Risk
Mitigation
Guide**



**Document
Checklist**



**List of
applicable
legislation**

China, Honduras, Liberia

Now available

Now available

Now available

Now available

Now available

Ghana and DRC

Now available

Now available

Now available

Now available

Other 57 countries

Now available

Now available

Coming soon

Coming soon

The End

NEPCON Sourcing Hub was developed
In partnership with the **Forest Stewardship Council**

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