



GTF Supplier and Consumer Due Diligence Analysis



Acknowledgements

GTF has kept their identities confidential, but would like to thank the 27 EU and 15 supplier country companies who participated in this GTF Due Diligence Analysis for their time and insights. Thanks too to the team that helped arrange and conduct the interviews.

GTF would also like to acknowledge Forest Trends for their support in conducting the interviews in Vietnam.

This work was funded by the Forest Governance, Markets and Climate (FGMC) programme of the UK Department for International Development (DFID).

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SEPTEMBER 2015



GTF Supplier and Consumer Due Diligence Analysis

A survey of due diligence performance of small to medium sized enterprises in EU consumer and tropical supplier countries. This report analyses due diligence approach and strategy against key criteria, and also gauges opinion on due diligence issues and timber market legality requirements. It gauges business views on the future of this field and draws key conclusions.





Executive Summary

Global Timber Forum takes a due diligence snapshot

Since the EU Timber Regulation was introduced in 2013, due diligence have become buzzwords for EU ‘operator’ companies and their suppliers worldwide alike.

The former, businesses which first place timber and products on the EU market, must ensure they undertake due diligence illegality risk assessment of all suppliers to minimise the danger of illegal wood entering their supply chain. Their suppliers, meanwhile, have to contend with a raft of due diligence documentation requests and inquiries from their customers across Europe.

The key question is just how effectively have companies risen to this challenge. Do they understand precisely what is required of them in terms of due diligence and the wider parameters of the EUTR? Have they implemented sufficiently robust due diligence systems and are they dedicating sufficient time, money and personnel to their administration, maintenance and development ?

In addition, do they feel they’ve had sufficient support and guidance from EU and national governments and their EUTR monitoring and enforcement agencies, the so-called Competent Authorities ? And what other sources of advice and information have they been able to draw on ?

Finding the answers to all this is important across the whole timber industry, but arguably most important of all for the small to medium sized enterprise sector, or SMEs. They not only comprise the lion’s share of timber consuming and supply businesses, by definition they also generally have fewer resources to devote to the issue and potentially less expertise.

The GTF undertook the following survey to fill in some of this picture; to identify both where companies are doing well and where improvement and help are needed in EUTR due diligence implementation and practice.

A global team of interviewers put a set questionnaire to a total of 27 EU timber sector ‘operators’ and 15 supplier SMEs worldwide. The result is a raft of data which is presented here in text and graphically.

Among interesting key conclusions is that both sets of companies, with some exceptions, are aware of their obligations under the EUTR and the nature of due diligence. Most also have a sound due diligence approach and invest considerable energy, not to mention money, in it.

Bigger businesses understandably coped best, but the survey highlighted that being a smaller business was no obstacle to effective due diligence. It also flagged up that companies that use third party advice tend to perform better and that communication within the timber industry between customer and supplier is also of valuable assistance.

Overall the GTF analysis provides a useful snapshot on where the EU timber sector and its supply base currently stands on due diligence. It shows areas of strength and points of weakness where there is room for improvement.

Supplementary questions also underlined that the industry broadly welcomes the EUTR and its due diligence demands. They see them as necessary and valuable instruments for helping to level the playing field against illegal traders and ultimately to eradicate illegal timber.



GTF Analysis of Small and Medium-sized Enterprises' Approach to Due Diligence

PART I

European SMEs

Introduction

Since the EU Timber Regulation (EUTR) was adopted in 2013, there has been much debate and some confusion on the best approach to practicing due diligence. What does a good system look like? How much diligence should be practiced? How is risk assessed and suitably managed?

To get a current picture of due diligence performance, in May and June 2015 the Global Timber Forum (GTF) undertook analysis of a modest sample of European small and medium-sized companies (SMEs) involved in the forest products trade (and, in conjunction, SMEs in timber supplier countries – see Part 2, page 16). Many larger companies have resources and relevant experience for managing risk and practicing due diligence. But SMEs are often overlooked or not considered. The question is can they practice due diligence as well as their larger peers?

The GTF analysis was based on a simple questionnaire for consumer and supplier country SMEs, with answers obtained via interview.

Consumer-country companies involved were based in France, UK, Germany, Italy and the Netherlands. They covered the range of product types, from tropical timber and plywood, to softwood, particleboard and joinery. They were chosen on the basis of EUTR “Operator” status and SME size (with annual sales below €50 million) and, of course, willingness to participate confidentially.

A number of the companies were working with Monitoring Organisations, though the majority were not. Some had set up their own due diligence systems, others had sought outside help. The sample is by no means large enough to represent the SME forest products sector across Europe, or even in the five countries. However, the sample and results do reveal interesting insights into how SMEs tackle the challenges they face, how they’ve fared to date and what their advice is to others.

The sample

The 27 companies involved were selected as being “typical” forest products industry SMEs in their country. Their average turnover was €23.7 million, with the smallest at €1 million and the largest €80 million. Twenty six of the companies were privately owned and just one publicly owned.

All the companies were “Operators” as defined by the EUTR and 18 were also regarded as “Traders”. The sample included seven French, eight UK, four Netherlands, five German and three Italian companies. And their wide range of sources included Brazil, Cameroon, Canada, China, Republic of Congo, Gabon, Ghana, Indonesia, Ivory Coast, Malaysia, Myanmar, Latvia, Peru, Poland, Suriname, Sweden, USA, Vietnam & EU Member States. Their product offer was equally diverse, ranging from decking and sawn wood to plywood and joinery.

Employee numbers also varied widely. The smallest company had just one employee, the largest, 220 giving an average workforce around 22. Management teams covered a range of sizes too, from one to 18, with an average of 5.





Companies were typically focused on their domestic markets, with some exporting to other EU states. Most also acted as traders or merchants, supplying a range of customers, from house builders, other merchants and joinery manufacturers, to retailers and local authorities.

And many respondents were members of trade federations, as **Table 1** reveals.

Compliance costs

All 27 companies said they had a management team member dedicated to legal compliance issues. Those able to estimate the time spent in this area, the average was 4.5 hours per week, with answers ranging between half an hour and 16 hours per week.

Time spent on environmental compliance ranged from half an hour to 15 hours per week, with an average time of 3.6 hours per week. Twenty of the companies had a named person responsible for environmental compliance.

When asked to quantify costs of compliance with legislation, many companies were unable to reply. From the 15 answers received, the average cost was €26,367 per annum from a range of €1,000 to €70,000. Many of the companies interviewed combined the cost of legal and environmental compliance.

When asked if they could quantify the benefits of legal or environmental compliance, none of the companies were able to provide a value. The small number that provided any thoughts suggested that compliance itself was a benefit and the cost of non-compliance was greater.



Table 1: Trade association membership

Country	No. of companies interviewed	Federations
France	7	LCB (5)
		ATIBT (5)
		Others (2)
UK	8	TTF (8)
		IWPA (2)
		ATIBT (1)
		Others (7)
Netherlands	4	VNH (1)
		FSC NI (1)
Germany	5	GD Holz (2)
		FSC De (1)
Italy	3	Federlegno (3)
		Conlegno (2)



Evaluating the due diligence system

Interviewee comment:
 “Persevere as a Due Diligence procedure is not developed overnight”

To evaluate the effectiveness of companies’ due diligence systems, the key components were set as questions and the answers scored against a “model” set of responses. The different aspects of a due diligence system were awarded a set of arbitrary points totalling 100, which allowed comparison between company and country.

Using this approach, the “model” due diligence system has the following main components, with the relative weighting of scores in brackets:

Staff and systems	(16)
Knowledge of the regulator	(3)
Keeping good records	(40)
Assessing the risk	(23)
Mitigating the risk	(13)
Monitoring	(5)
<hr/> Total 100	

Staff, systems and policies

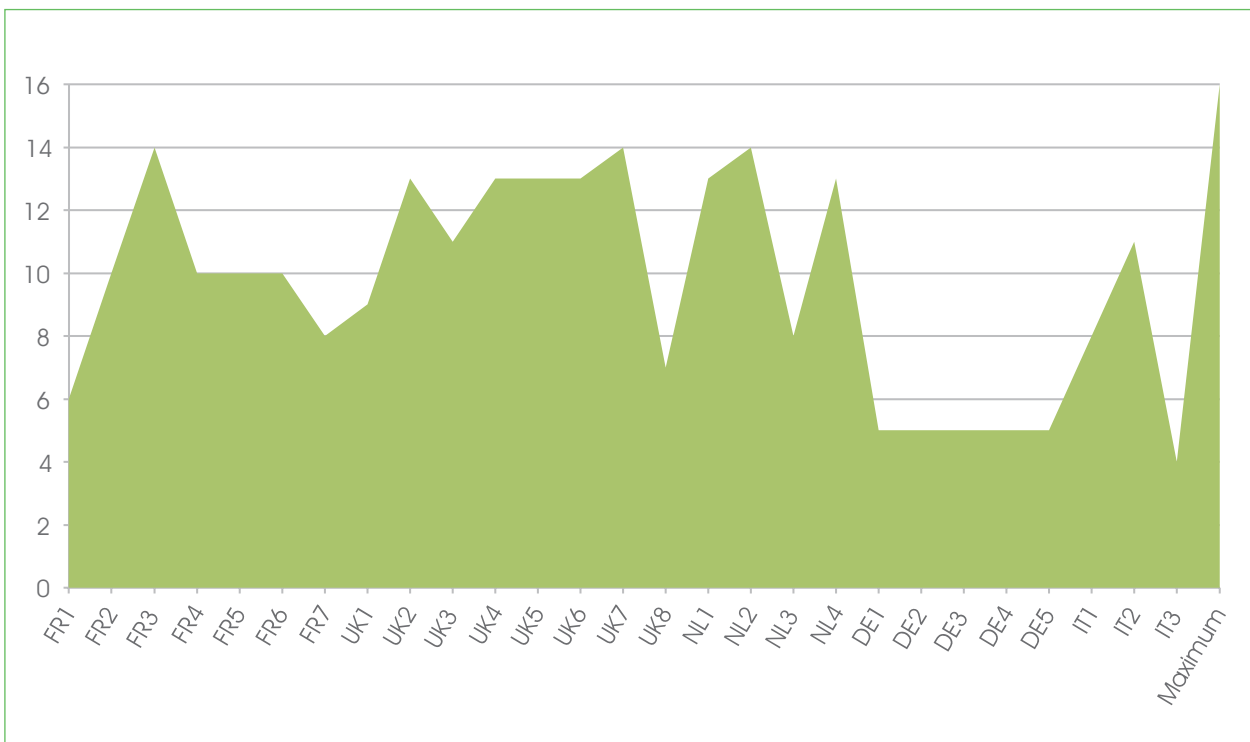
Sixteen of the companies had some form of environmental policy. These ranged from the generic (like that required by the UK TTF) to bespoke systems. Every company had a named person heading up legal compliance and most (21) had one responsible for environmental compliance. In many cases the latter also covered legal issues.

Twenty four of the companies had chain of custody systems in place (either PEFC or FSC), but only three had ISO 9001, while fifteen had some form of environmental policy.

Relationship with Competent Authorities

All the companies, bar one, could name their country’s Competent Authority (CA) and 17 claimed contact with it. Seven had been inspected by the authority and one had been asked to provide information. Just one respondent had contacted the authority for information.

Figure 1: Staff, Systems & Policies – Overall Results





Relationship with Monitoring Organisations

Fifteen of the companies had been in contact with a Monitoring Organisation (MO), of which six had chosen to work with an MO to set up their due diligence system.

Record keeping

Due diligence systems

Twenty five respondents claimed to have a due diligence system in place and two said they were developing one (even though all were obliged to have such a system in place already).

Twenty two of the respondents routinely record the species that they purchase and 25 are recording the type of material purchased.

Traceability

When asked about their degree of traceability, there was a broad range of responses as seen in Table 2 below:

Table 2: Responses to “Do you know where the timber was harvested?”

Response	No. of responses
Mostly to the level of forest management unit	16
Mostly to a regional or district level	6
Mostly to the level of the country where it was harvested	5
We don't know where most of our wood was harvested	0

Harvesting companies

When asked if they could identify the names of the harvesting companies, the responses were more positive (Table 3):



Table 3: Responses to “Do you know the name of the company / companies that harvested the timber?”

Response	No. of responses
Yes – we know most or all of them	20
No – we know the agent's name we bought the wood from	3
No – we know the mill's name we bought the wood from	4
No – we have little or no information	0

Interviewee comment:
“Do it properly and incorporate it into your IT system”

Interviewee comment:
“Know what is legal and what is not!”



Interviewee comment:
 “Document everything, including your conclusion and thought process behind it. Keep complete records”

Recording volumes

Twenty five respondents routinely record the volume of material purchased. One only occasionally does so, one does not.

Information for customers

When asked if they could supply information on the species and origins of the wood to customers for each consignment, the majority (26) said yes, but one said they could only supply information on species.

The level of risk has a bearing on the degree of traceability required to demonstrate due diligence, so it is concerning that not all the companies had a high degree of traceability, yet claimed to be able to provide information regarding species and origins of wood to customers (“Traders”).

Supplier information regarding legality

When asked what information and assurances are sought from suppliers, respondents gave a very broad range of responses (which they could frame themselves), as seen in **Table 4**.

Table 4: Responses to “Do you ask your suppliers for information regarding the legality of the wood they supply?”

Response	No. of responses
We ask for certified products only (chain of custody)	21
We ask for verified legal products	16
We ask for customs forms	20
We ask for export permits	20
We ask for shipping documents	25
We ask for proof of export tax payments	14
We ask the supplier to provide a letter confirming all the wood is legal	16
We visit the supplier on a regular basis	20
We have a good relationship with the supplier	25
We trust the supplier	20

Checking information from suppliers

We asked if companies checked the information received from suppliers and **Table 5** shows the responses.

Table 5: Responses to “Do you check the information provided by your suppliers?”

Response	No. of responses
No	1
If Yes, choose all that apply	
We follow up on the telephone or at meetings	20
We pay a third party to check sometimes	6
We check websites for information	16
We talk to our trade federation	10

The majority of companies performed well and had reasonable systems that recorded most or all of the information required from suppliers and virtually all checked some or all of the information received (see **Figure 2**).

Risk assessment

When is the risk assessment made?

Twenty five of the respondents undertook risk assessment before purchasing the products. Two respondents did it after purchasing, which is ill advised.

Factors considered when assessing risk

Respondents considered a wide range of factors when making risk assessments, as shown in **Table 6**.



Figure 2: Record keeping - Overall results

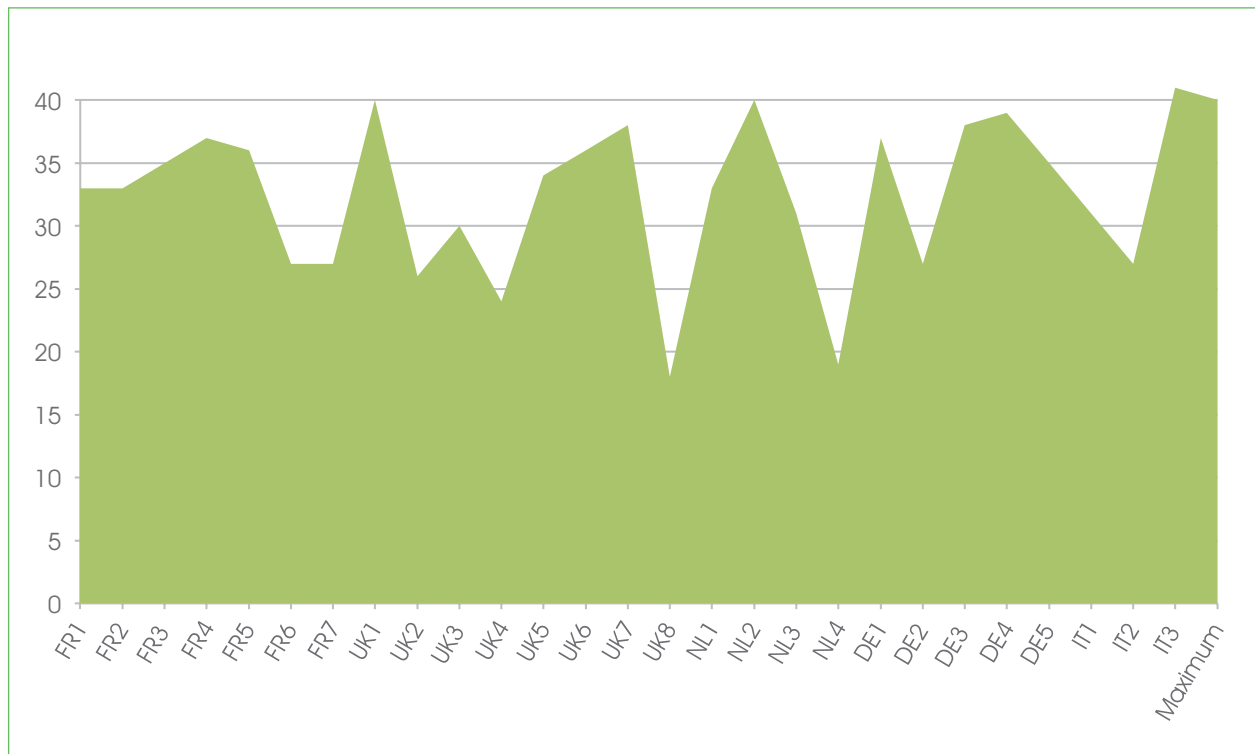


Table 6 Factors considered in making a risk assessment

Response	No. of responses
Certification	25
Legality verification	22
Compliance with the laws in the producer country	23
The amount of illegal timber in the producer country	18
The amount of illegal trade in some species of timber	18
UN or EU sanctions against certain countries	17
Level of trust in supplier or agent	21
Other factors	9

“Other factors” included consultation with NGOs & associations.

Consistency of risk assessment

Twenty five of the companies consistently followed the same risk assessment procedures for every purchase. One respondent varied the process according to what they considered high or low risk sources and one did not perform a risk assessment.

Documenting the risk assessment process

Twenty two respondents routinely document their risk assessment process, while the others document it occasionally.

Interviewee comment:

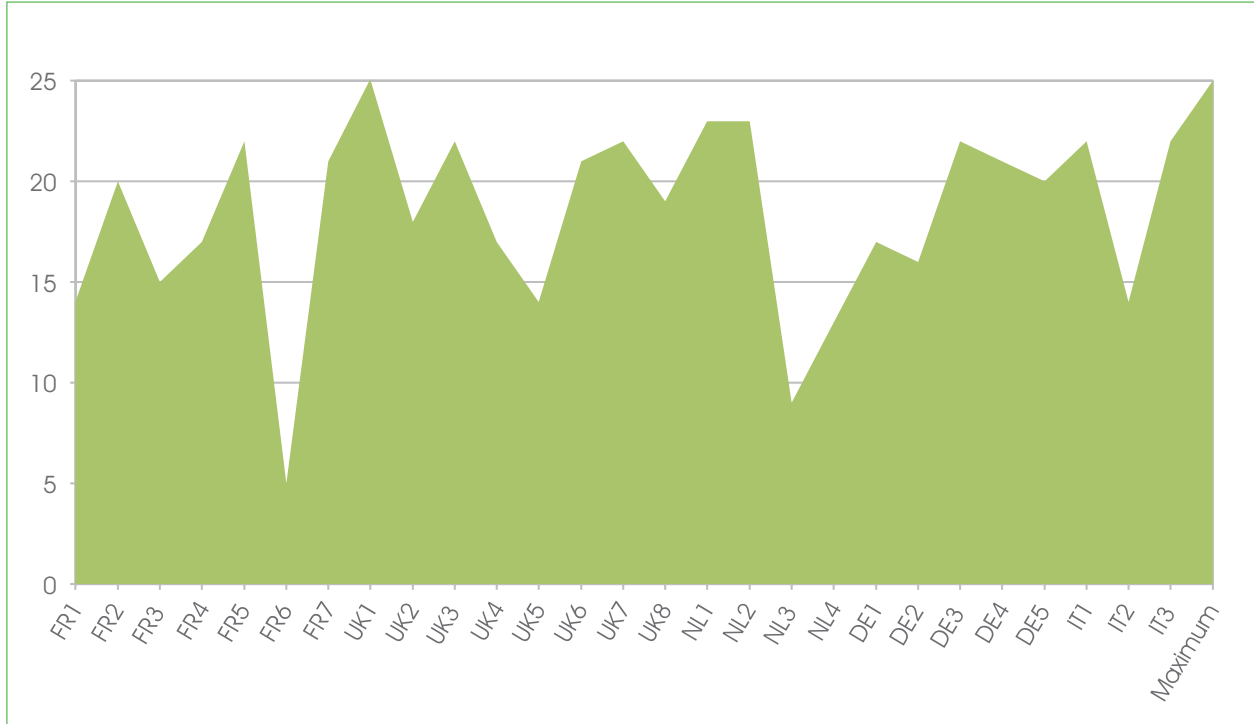
“Do as you do with every new order, in terms of checking the credentials of your source of supply”

Interviewee comment:

“Research the systems available”



Figure 3: Risk assessment – Overall responses



Interviewee comment:
“We visit our suppliers every 6 weeks”

Risk mitigation

Forms of mitigation

Companies used a variety of methods to help mitigate the risk of purchasing illegal timber, as seen in **Table 7** below:

Monitoring of the due diligence system

Twenty four respondents checked the use and functioning of their system on a regular basis. The checks varied between daily (i.e. every time a purchase was made) and periodic reviews, such as on a weekly or monthly basis.

Three respondents did not check their system at all, which should be of concern.

Overall performance

The **Chart** opposite shows the overall performance of the companies for each of the sections described above. The left hand column indicates the theoretical maximum score.

The CA and legal system in each country will decide which companies have a due diligence system that meets EUTR requirements. Based on this analysis and scoring approach, it appears that 15 of our respondents have systems that might be regarded as comprehensive, with four being very comprehensive.

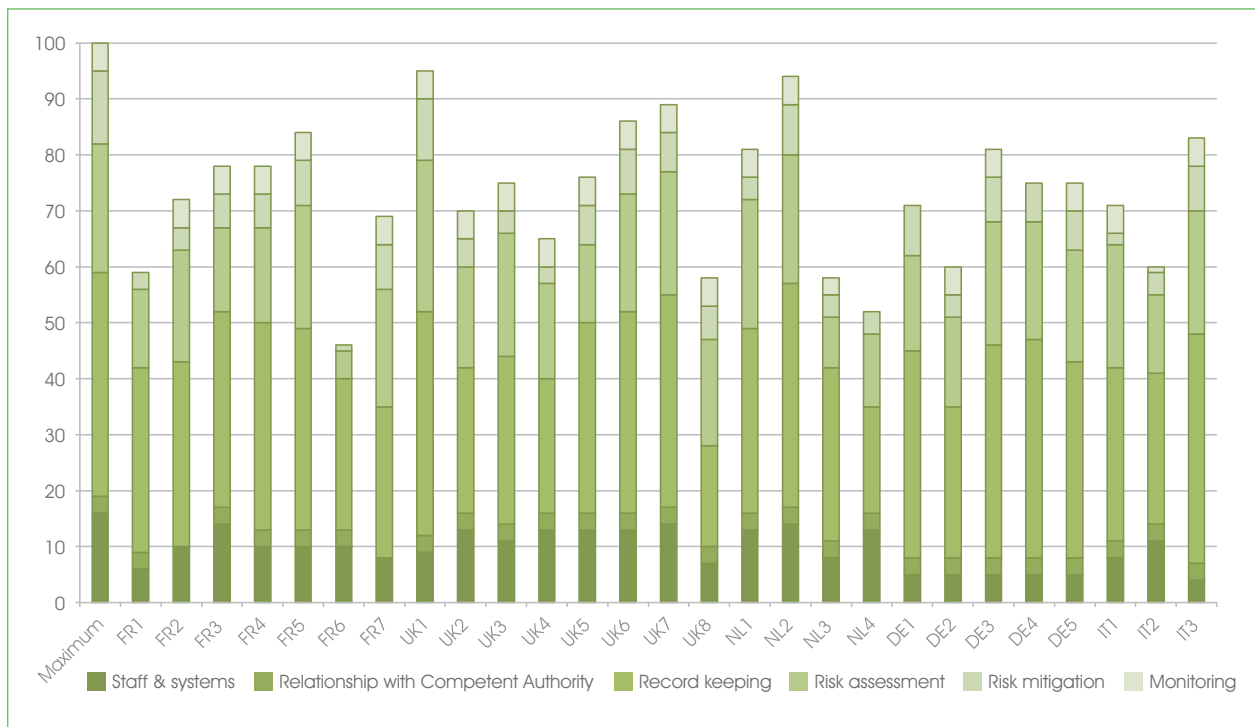
The six companies scoring in the range 60 to 70 have most of the elements in place and, with modest changes, could improve their systems to a reasonable level.

Table 7: Techniques used to mitigate risk

Response	No. of responses
We use third-party certification	17
We use third-party verification	12
We obtain all the export documents that we should	25
We always cross-check paperwork	16
We visit our suppliers	21
We have long-term trading relationships	24
We check other sources of information – websites	20
We check with a trade federation	13
Other – please state Visits by our own technical staff	7 (3)



Figure 4: Overall Performance



The six scoring below 60 on this scale should be concerned that their systems would not stand scrutiny.

Does the choice of DD system matter?

Do larger companies perform better?

The analysis suggests that larger companies do tend to perform slightly better, but there are examples of smaller SMEs having seemingly adequate due diligence systems.

The companies interviewed showed three typical routes to setting up their due diligence systems. These included:

- Off the shelf – through working with an MO (seven companies)
- Third party – using consultants to implement a system (four companies)
- Do it yourself – developing a system in-house (16 companies)

Figure 5: Turnover versus performance

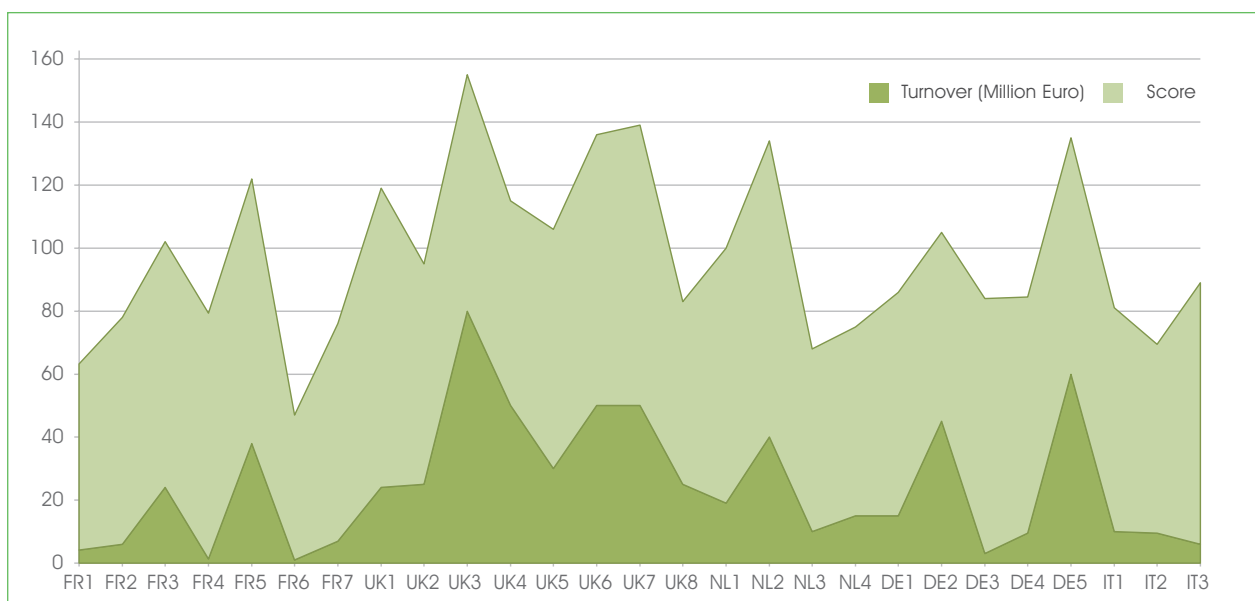
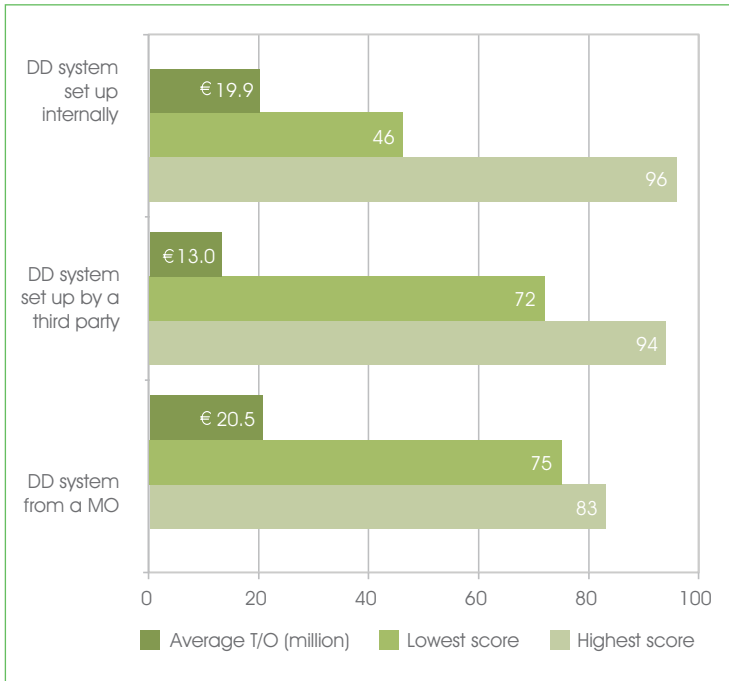




Figure 6: Development of Due Diligence systems



The systems used by companies working with MOs showed a very narrow range of scores (75 to 83). In terms of overall performance these companies were not the best within the sample, but the MO's system offers safeguards and, if implemented correctly, provides a measure of sufficient due diligence for that country.

Respondents using systems developed by third parties scored 72 to 94 (the second highest score in the sample). Typically they had paid a consultancy to develop and assist implement a system.

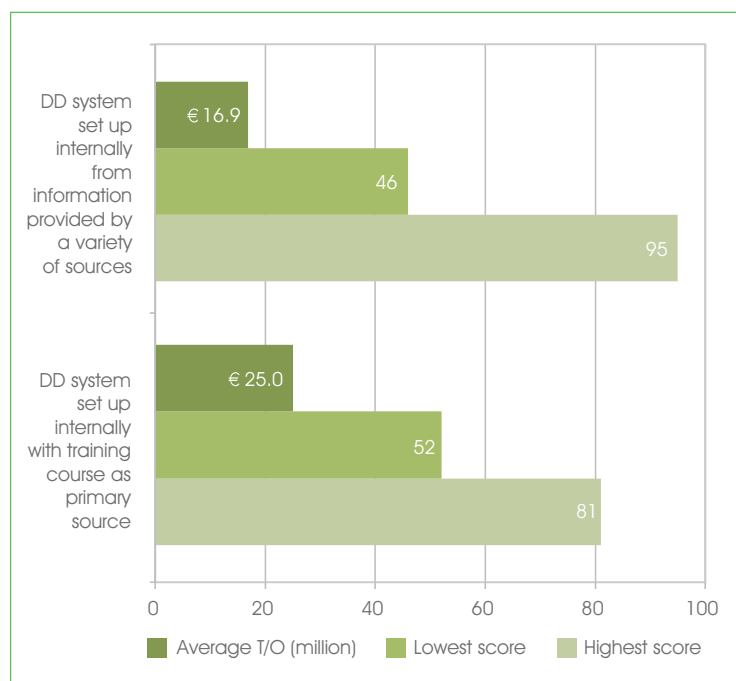
Internally developed systems showed the widest score variation – from 46 to 96. Many companies taking this route had attended some form of training and received information from one or more trade associations. Two respondents claimed to have received no outside help and developed their system purely based on reading the EUTR.

Generally companies that sought most input from third parties, courses, associations and any other public sources of information, performed better.



Interviewee comment:
 "If there is enough money, better buy a DDS from an MO – it is so much work to do it yourself!"

Figure 7: Sources of help for internally developed Due Diligence systems





Conclusions

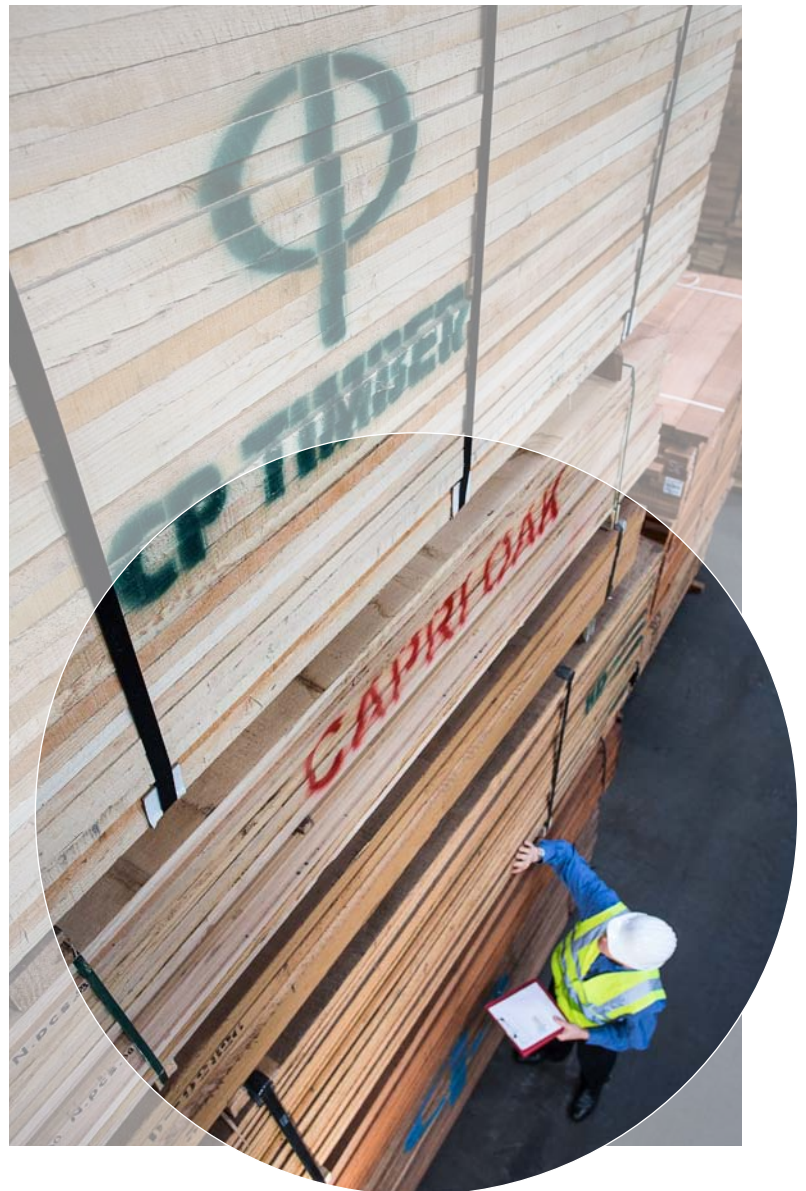
Our small sample of respondents limits the weight of conclusions that can be made from this analysis, but as a snapshot of SMEs trading in Europe today a few key points can be drawn.

Larger companies do not have a monopoly on practicing sound due diligence and EUTR compliance. The smallest companies are capable of implementing a system that works for them and which should meet the expectations of the CA.

Off-the-shelf systems, such as those provided by MOs, offer one solution providing a comprehensive system, but there are other options. Support from consultancies has a place and has been proven effective. Most companies appear to develop their own system, with results ranging from excellent, to below a standard that could be described as due diligence.

The best systems have been developed using all of the tools available: trade association materials, dialogue with CAs, the text of the EUTR itself, NGO materials and simply talking to peers in the industry.

With one exception, all the companies interviewed welcomed the EUTR. For many it has the potential to level the playing field and to legitimise their material – wood. Many expressed a hope that the Regulation would be better implemented across the EU in a way which helped eradicate illegal wood, while leaving room for legitimate operators.





GTF Due Diligence Analysis

PART 2

Producer SMEs

For producers exporting to the EU, the US or Australia, developments in market legislation to combat illegal timber in the past five years have had the potential to create considerable confusion among suppliers as to what these new rules require of them.

The GTF survey targeted SMEs in a range of producer countries to assess how they are responding to the challenges of exporting to markets that are ever more sensitive to timber legality issues.

Have producers become so obsessed with meeting market requirements that they have lost sight of their own legal obligations? Have conflicting demands from export markets adversely impacted business, or have producers found ways to manage legal compliance? To answer these questions GTF sought the views of a range of 15 SMEs in 6 countries; Cameroon, Democratic Republic of Congo, Gabon, Ghana and Vietnam. Wherever possible the questionnaire-based interviews were face to face.

The businesses covered a broad range operations and product types, from tropical logs and timber through to indoor and outdoor furniture.

The survey sought to assess how producers have responded to new market demands; whether they're managing to pick their way through the minefield of legal compliance, while trading successfully and profitably.

Where possible GTF tried to ensure that the producer country survey closely matched that used in the EU to allow for comparison between approaches.

The sample

The 15 companies involved were selected as being "typical" SMEs in the forest products industry in their country. The average turnover was €5.97 million, with the smallest being €0.4 million and the largest €20 million. Thirteen of the companies were privately owned with two publicly listed. The SME definition considered in Cameroon, DR Congo, Congo and Gabon is from an assessment done in these countries¹. In the others targeted an SME, the GTF applied the EU definition of turnover being under €50 million.

The sample included two companies from Cameroon, one from DR Congo, two from Gabon, four from Ghana, one from Liberia and five from Vietnam. The African companies were typically forest managers with integrated sawmills and, in some cases, further processing. Some of the African companies used only logs from their own concessions, others used their own supplemented by logs or sawn wood from other sources. The Vietnamese companies were manufacturers using timber purchased from a wide range of sources, both domestic and imported.

The sample is small, but provides interesting insight as to how some SME producers tackle latest market legality regulation challenges.

The majority of the companies (11) were servicing both domestic and exports markets, with only four entirely export-focused. Across the sample, 75% of sales were exports, with the main markets shown in **Table 8** opposite.

1. Yene Yene G. (2013) *Regional Synthesis Report – Supporting and Enabling the Timber Trade Sector in Central Africa Constraints and Needs of Timber Industry SMEs – Cameroon, Car, Congo Republic, Drc, Gabon*





Table 8: Products and major markets for producers interviewed (main items in bold)

Response	Main products	Main markets		Source countries
West Africa	Sawn wood Veneer Plywood Mouldings	European Union China USA Middle East	Nigeria South Africa Israel Domestic market	Ghana Liberia
Central Africa	Sawn wood	China Middle East North Africa	European Union Turkey Domestic market	Cameroon Gabon DR Congo
Vietnam	Garden furniture Indoor furniture Flooring Sawn wood Joinery	European Union Germany France Netherlands UK Sweden Italy	USA Australia	Vietnam Uruguay Brazil Malaysia PNG Solomons EU New Zealand USA Central Africa

Workforce size varied widely; the smallest company had nine employees, the largest 2,351, with the average around 161. Management team sizes ranged from three to 44, with an average of 10.

Many of the companies were members of trade associations, as shown in **Table 9**.

Compliance costs

All 15 companies had a member of the management team responsible for dealing with legal compliance issues. For those able to estimate the time these required, the average was 17 hours per week, with a range from two to 30.

Time spent on environmental compliance ranged from one to 10 hours per week, with an average of 4.8. Eleven of the companies had a named person in this area (including all the Vietnamese companies).

Many companies could not assess the cost of legislative compliance. But for the six which could answer this question, the average per annum was €33,083, with a range of €10,500 to €85,000. Many of the companies combined the cost of legal and environmental compliance and one

Table 9:

Country	No. of companies interviewed	Federations & support programmes
Cameroon	2	AIENC (1) FEDE (1)
Democratic Republic of Congo	1	-
Gabon	2	SIAG (2)
Ghana	4	GTMO (4) WWF-GFTN (2)
Vietnam	5	VCCI (4) VIFORES (2) FPA (2) HAWA (2) WWF-GFTN (1)

Note: WWF-GFTN is not a trade association, it is an NGO support programme.



Vietnamese company estimated the total equated to \$5 per cubic metre of timber purchased.

When asked to identify the benefits of legal or environmental compliance, six of the companies felt able to answer. Market access was cited by four companies (specifically EU markets) while one gave the benefit of not paying fines for non-compliance. One company (in Ghana) estimated that it received a 5-10% price premium for being able to provide assurance that all of its exports were from legally harvested timber.

Evaluating the due diligence system

To evaluate the effectiveness of the due diligence systems of companies interviewed, they were questioned on key criteria and their answers scored against a “model” set of responses. The different aspects of a due diligence system were awarded a set number of points totalling 100, allowing comparison between companies and countries.



The key due diligence criteria were scored as follows:

Staff and systems	(16)
Keeping good records	(38)
Assessing the risk	(18)
Mitigating the risk	(18)
Awareness of legislation	(10)
Total 100	

Staff, systems and policies

Eight of the companies interviewed had some form of environmental policy, while all had a named person responsible for legal compliance and ten for environmental compliance. In many cases they were the same person.

All of the Vietnamese companies had ISO 9001 certification, while three each of the Vietnamese and Ghanaian companies had FSC chain of custody certification.

Record keeping

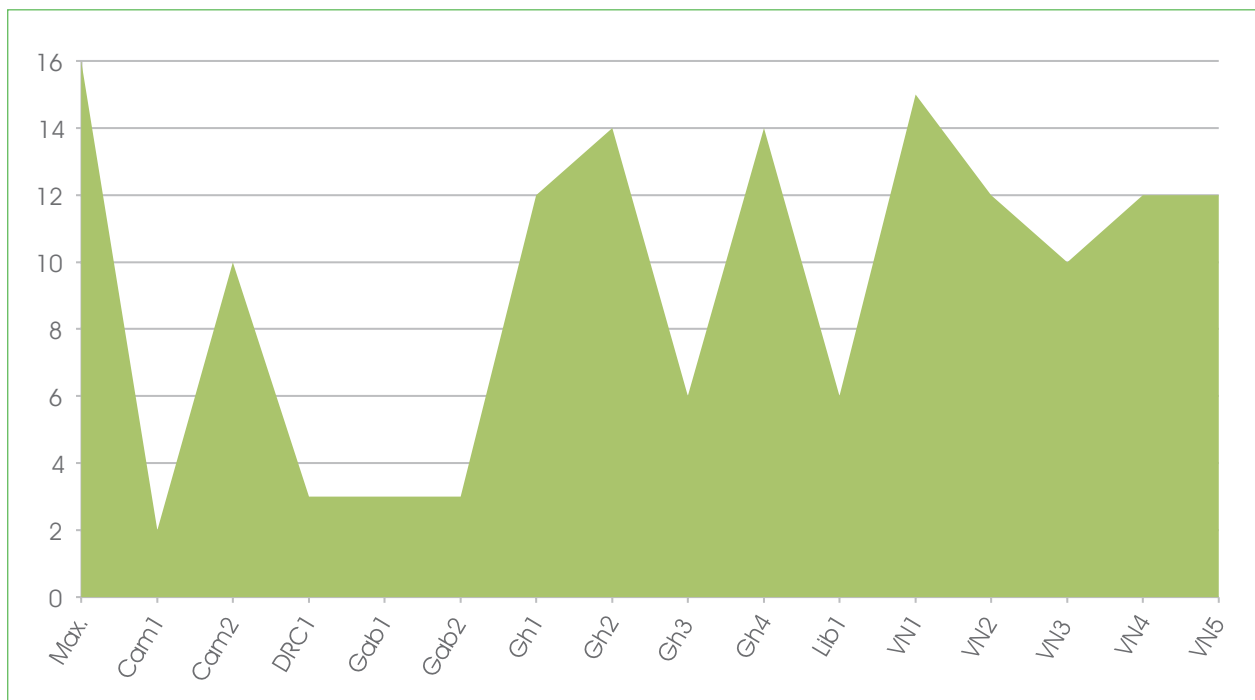
Due diligence systems

Fourteen of the respondents claimed to have a system for ensuring they only purchased legally harvested timber and one Vietnamese company claimed that they were developing one.

The Vietnamese and Ghanaian companies were generally more comfortable with the concept of a due diligence system. The Africans, who were primarily concessionaires, interpreted the question as equating to their lawful right to harvest within their own concessions. For the purposes of this analysis, ensuring the lawful right to harvest and establishing a due diligence system have been equated.



Figure 8: Staff, systems & policies - Overall results



LOG INFORMATION FORM N° 0023501

Tractor/Applicant: _____ Property Mark: SLMS

Station/Compartment: 37

Reference No. (Permit/Pre-felling inspection/Yield): _____

Forest District	Locality Mark	Stool Landowner	District Assembly
<u>MPRASSO EI</u>	<u>EI</u>	<u>ASUNAFI</u>	<u>ATLWA</u>

Felling No. (Official use)	Reference Code	Block/Block No. (Or. Title No. / Title No.)	Cont.	Species		Log No.	Log Length	Log Dimensions					Volume (Official use)	
				State Name	Code			No.	Ø1	Ø2	Ø3	Ø4		Ø5
1	664	116	130	KRAM	1	10	10	10	10	10	10	10	10	10
2	664	116	130	KRAM	2	10	10	10	10	10	10	10	10	10
3	664	116	130	KRAM	3	10	10	10	10	10	10	10	10	10
4	664	116	130	KRAM	4	10	10	10	10	10	10	10	10	10
5	664	116	130	KRAM	5	10	10	10	10	10	10	10	10	10
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9	664	116	130	KRAM	9	10	10	10	10	10	10	10	10	10
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16	664	116	130	KRAM	16	10	10	10	10	10	10	10	10	10
17	664	116	130	KRAM	17	10	10	10	10	10	10	10	10	10
18	664	116	130	KRAM	18	10	10	10	10	10	10	10	10	10
19	664	116	130	KRAM	19	10	10	10	10	10	10	10	10	10
20	664	116	130	KRAM	20	10	10	10	10	10	10	10	10	10

Table 9: Responses to the question: “Do you know where your wood was harvested?”

Response	No. of responses
Mostly to the level of forest management unit	10
Mostly to a regional or district level	1
Mostly to the level of the country where it was harvested	2
We don't know where most of our wood was harvested	0

Fourteen of the respondents routinely record the species they purchase and all record the type of material purchased.

Traceability

When asked about the degree of traceability, there were generally positive responses as seen in **Table 9**.

Harvesting companies

All of the companies claimed to know where and who harvested their timber.

And it should be noted that this included four African companies sourcing only from concessions that they manage directly.



Table 10: Responses to “Do you know the name of the company / companies that harvested the timber?”

Response	No. of responses
Yes – we know most or all of them	15
No – we know the agent’s name we bought the wood from	0
No – we know the mill’s name we bought the wood from	0
No – we have little or no information	0

Information for customers

Fourteen companies record the species that they purchase, while 15 are able to record the type of material purchased and 11 record the volume obtained from each supplier.

Thirteen companies claimed to be able to provide information to each customer regarding species and origins of their products.

Supplier information regarding legality

When asked what information is requested and assurances sought from suppliers, a very broad range of responses were given, as seen below. The companies were allowed to choose all the responses that applied, but four forest managers sourcing exclusively from their own concessions were excluded from these tables.



Table 11: Responses to “Do you ask your suppliers for information regarding the legality of the wood they supply?”

Response	No. of responses
We ask for certified products only (chain of custody)	4
We ask for verified legal products	3
We ask for customs forms	5
We ask for export permits	8
We ask for shipping documents	9
We ask for proof of export tax payments	7
We ask the supplier to provide a letter confirming all the wood is legal	6
We visit the supplier on a regular basis	9
We have a good relationship with the supplier	6
We ask for export permits	0
We trust the supplier	6

Checking information from suppliers

We asked if the companies checked the information they received from suppliers, with the responses shown in the table below.

Please note that the four forest managers sourcing exclusively from their own concessions were excluded from these tables.



Table 12: Responses to “Do you check the information provided by your suppliers?”

Response	No. of responses
No	0
If Yes, choose all that apply	
We follow up on the telephone or at meetings	10
We pay a third party to check sometimes	5
We check websites for information (list)	4
We talk to our trade federation	5



Risk assessment

Please note again that four forest managers sourcing exclusively from their own concessions are excluded from this analysis.

When is the risk assessment made?

Eleven (out of 11) of the respondents make their risk assessment before purchasing the products.

Figure 9: Record keeping – Overall results

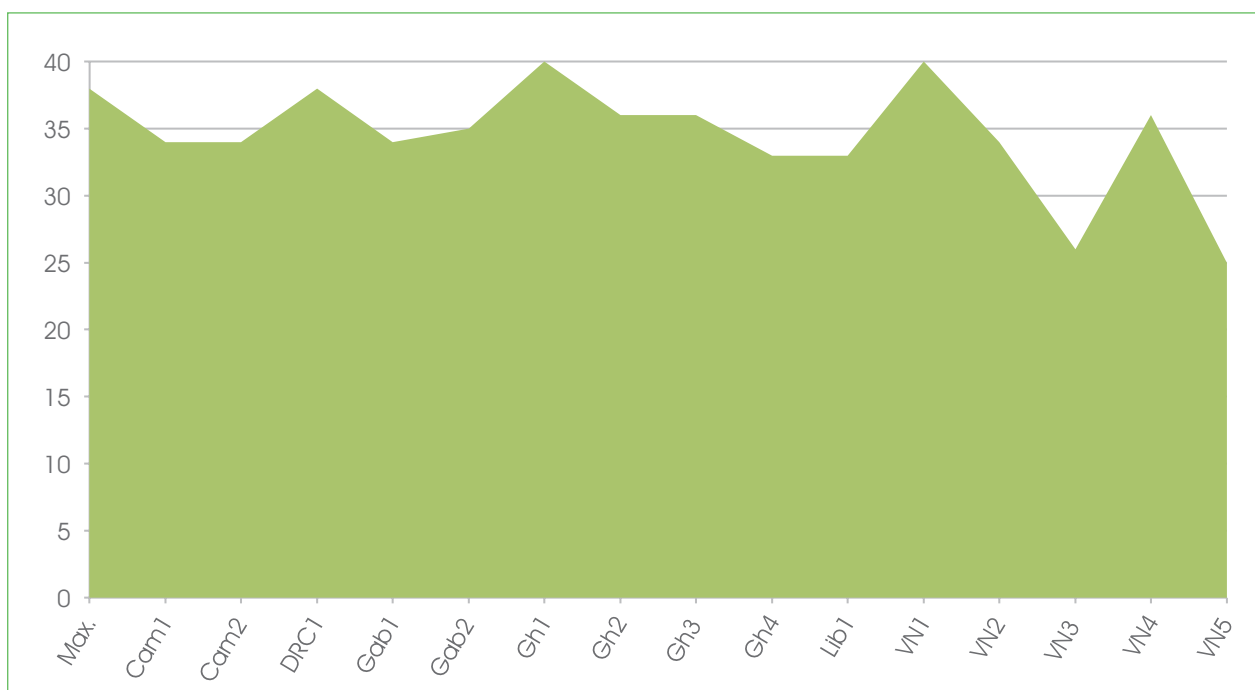
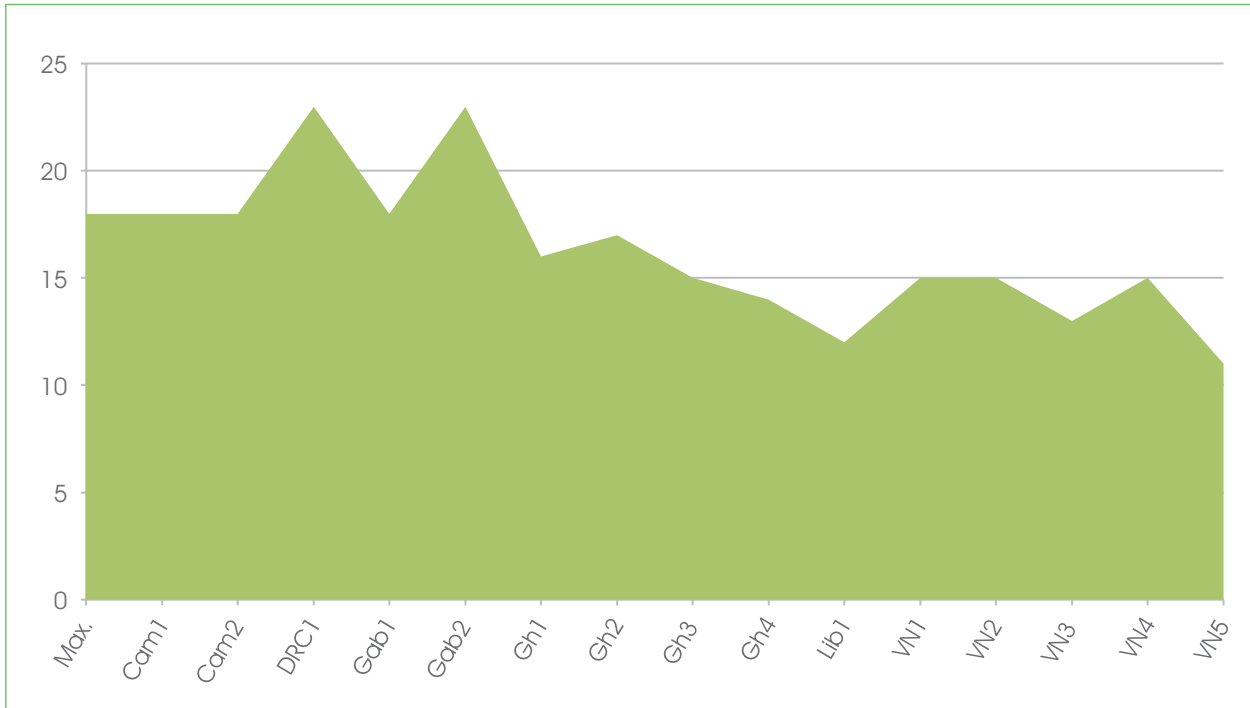




Figure 10: Risk assessment - Overall responses



Factors considered when assessing risk

The respondents considered a wide range of factors when making their risk assessment. The responses are shown in the table below.

Table 13 Factors considered in making a risk assessment

Response	No. of responses
Certification	8
Legality verification	6
Compliance with the laws in the producer country	9
The amount of illegal timber in the producer country	4
The amount of illegal trade in some species of timber	4
UN or EU sanctions against certain countries	3
Level of trust in supplier or agent	6



Consistency of risk assessment

All 15 companies consistently followed the same risk assessment procedures for every purchase they made.

Risk mitigation

Forms of mitigation

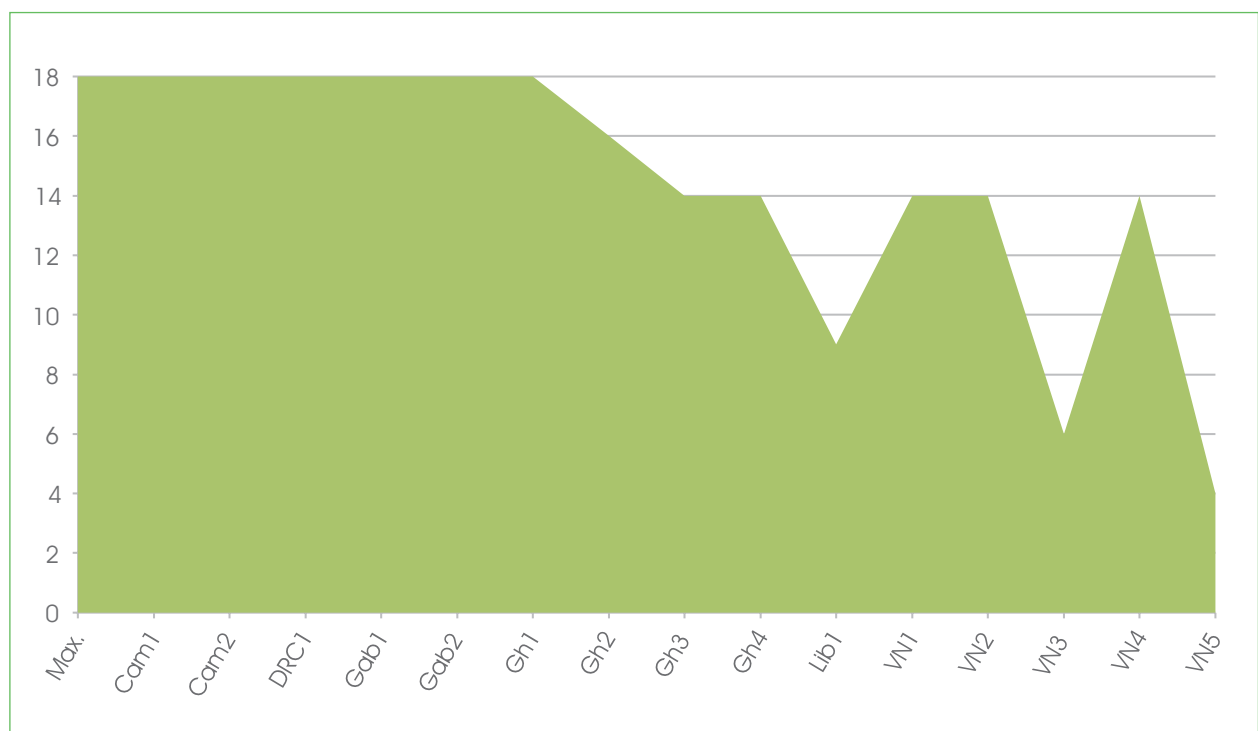
The companies used a variety of methods to help mitigate the risk of purchasing illegal timber, as shown in **Table 14** opposite.



Table 14: Techniques used to mitigate risk

Response	No. of responses
We use third-party certification	5
We use third-party verification	4
We obtain all the export documents that we should have	10
We always cross-check paperwork	9
We visit our suppliers	9
We have long term trading relationships	7
We check other sources of information – websites	7
We check with a trade federation	4
Other – please state	6
Liaise with Communities	(4 – Ghana)
Consult with NGOs	(1 – Ghana)
Consult with law enforcement agencies	(1 – Ghana)

Figure 11: Risk mitigation - Overall responses





Awareness of legislation

Awareness of legislation in export markets

The highest levels of awareness were around the European Union (EUTR) and the US (Lacey Act).

Table 15: Responses to: “Are you aware of the legal requirements of some of the export markets?”

Response	No. of responses
No	0
Yes – European Union	13
Yes – USA	8
Yes – Australia	4

Awareness of domestic forest & trade legislation

Awareness of domestic legislation was high.

Table 16: Response to: “How aware of the laws relating to forest products in your own country are you?”

Response	No. of responses
Not aware	0
Limited knowledge	0
Good knowledge	5
Excellent knowledge	9

Sources of information regarding market requirements

The companies gained their information from a wide variety of sources. These comprised primarily direct customer contacts (13) and training (16). Trade associations also play a prominent role via their dedicated communications (nine) and training course, especially in Vietnam.

Table 17: Responses to: “Where do you get your information on forest products legislation in export markets?”

Response	No. of responses
We do our own research	7
We receive information from trade associations	9
We visit or talk to our customers	13
We attended training	16
Ghana	
- FLEGT	(3)
- Rainforest Alliance	(1)
- SGS	(1)
- WWF	(1)
- Ghana Forestry Commission	(1)
Vietnam	
- VCCI	(4)
- FPA	(3)
- VIFORES	(1)
- SGS	(1)

Overall performance

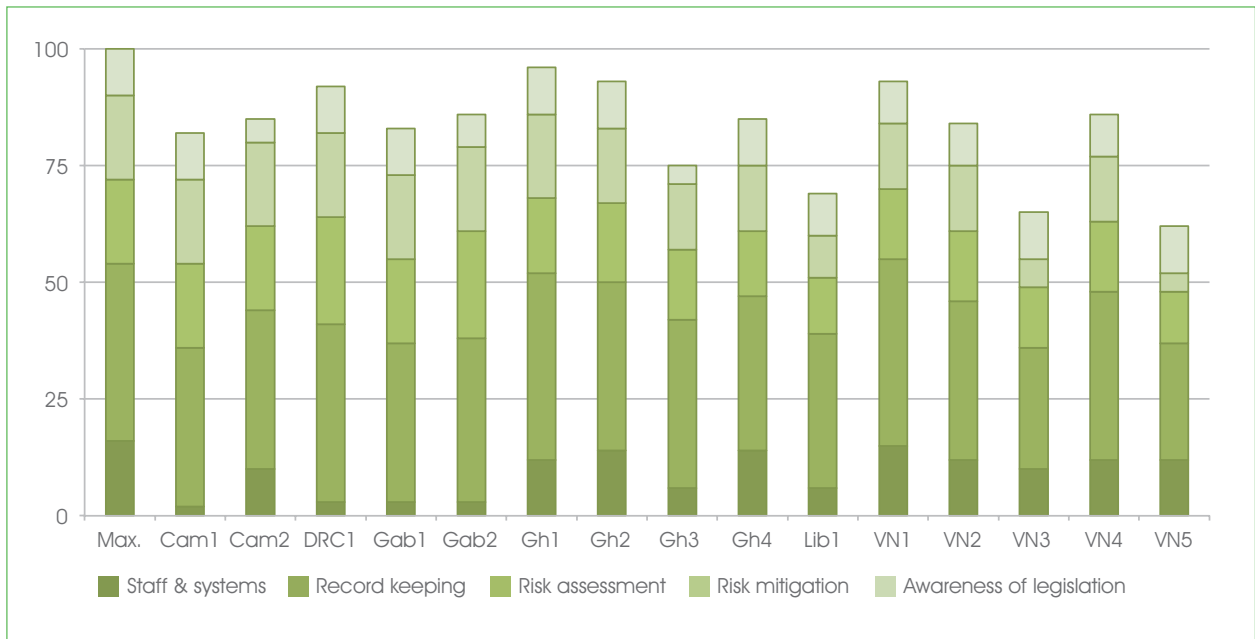
The table below shows the overall performance of the companies for each of the sections described above. The left hand column indicates the theoretical maximum score.

Please note that the overall scores include forest concessionaires (in Cameroon, Gabon and Liberia). The answers and results for these companies have been adjusted to allow comparison.

The companies directly managing forest concessions and exclusively using their own timber tend to perform better than those sourcing from third parties. The Ghanaian and



Figure 12: Overall scores



Vietnamese companies to a degree are more comparable. Most of the Ghanaians use their own concession and third-party sources, while the Vietnamese only use third party supplies. In total 12 of the companies performed to a good standard, but three have work to do to satisfy EU market demand in terms of providing sufficient assurance.

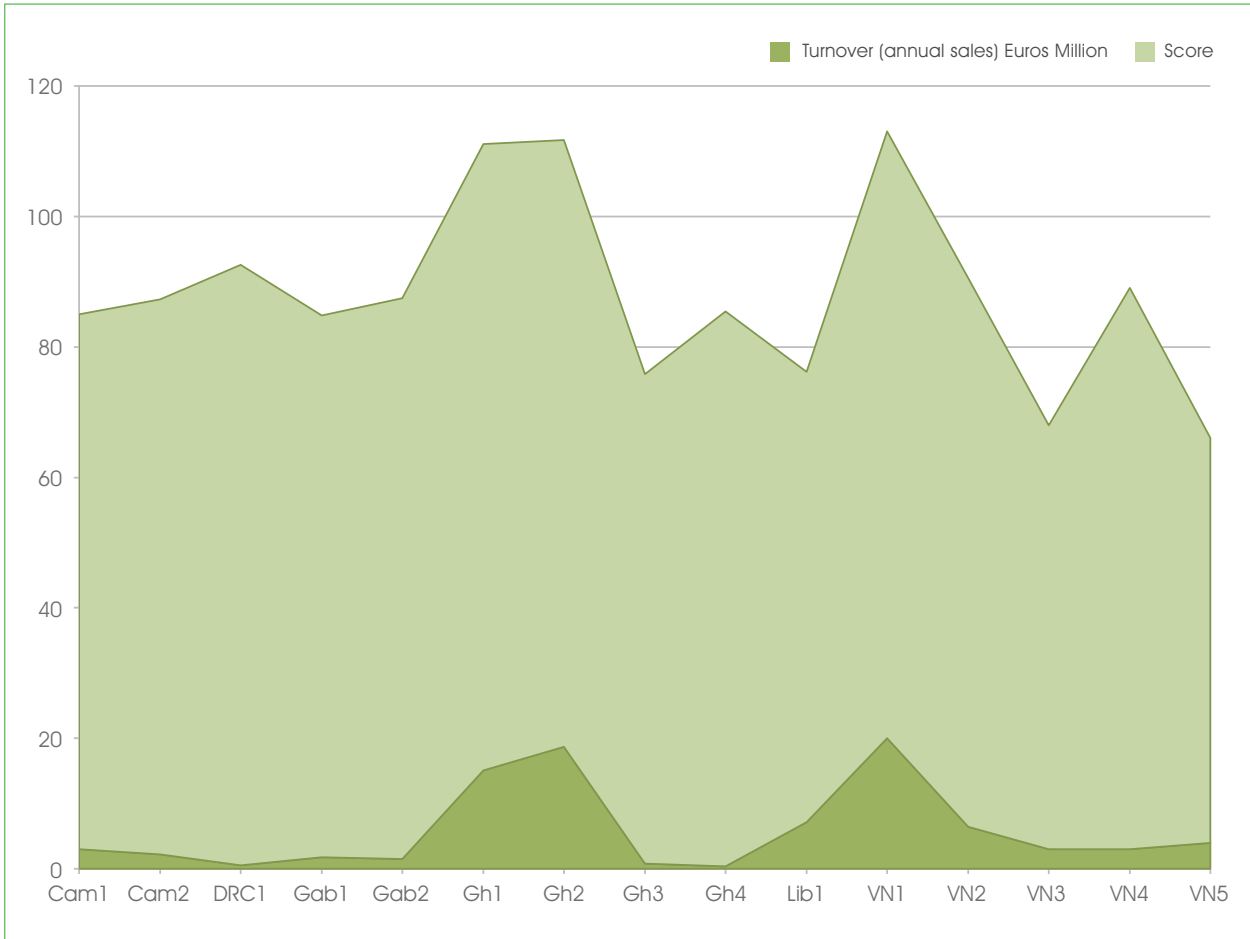
Do larger companies perform better?

The analysis suggests that larger companies do tend to perform slightly better, but there are examples of smaller SMEs having what appear to be adequate due diligence systems.





Figure 13: Comparison of scores versus turnover



Is there market demand?

The majority (12) of the companies interviewed stated that some of their customers were requesting information regarding the origins of the wood supplied.

Table 18: Response to: “Are you asked questions by your customers about the legality of your products?”

Response	No. of responses
No	3 (Cameroon, Liberia, Vietnam)
Yes	12

The main sources of market demand for legal (and often sustainable) wood were as follows:



Table 19: Source of market demand for legal timber

Country / Region	No. of responses
EU - not named	6
EU – UK	1
EU – Sweden	1
EU – Germany	3
EU – Portugal	1
EU – France	3
EU – Belgium	1
EU – Italy	1
EU – Netherlands	2
EU – total	19
Australia	3
USA	8

Six companies stated that China was their primary market and a further three also traded with China. There was no recorded market demand or enquiries from Chinese customers regarding timber legality.

Views of the future

The survey also asked the companies for their views on the future:

- Is it becoming harder to export to some markets?
- Have you considered switching to different export markets?
- Do you think it will be easier to export to your preferred markets in the future (3-5 years)?

The consensus was that there was likely to be more export market regulation ahead and perhaps in more countries. The survey respondents were split evenly on whether it would be easier to export in the future, or more difficult. Many of the former felt that if the regulations remained stable, then it would be easier as compliance became more familiar to exporters and their customers.

The EU market was seen by a number of respondents as being difficult and the belief was that it would continue to be an export concern as the EUTR was applied more firmly, or even revised.

Five companies in the sample have considered new markets. The survey was not able to reveal if this was purely due to meeting market-based legal requirements. Domestic and regional markets were mentioned as possible alternatives. This may be partly due to these becoming more profitable, partly because they are seen as less difficult to trade in.



Conclusions

From our limited sample of small and medium-sized companies across a range of producer countries it is apparent that size is not important when it comes to managing risk within supply chains. The very smallest companies are capable of implementing a system that works for them and which should meet the expectations of export customers.

At the same time, exporters have to invest considerably more than importers to ensure a reasonable level of legal and environmental compliance. They must consider both domestic legislation (which is sometimes confused and contradictory) and the requirements of customers who have to comply with the EUTR, the Lacey Act or the Australian Illegal Logging Prohibition Act. From the perspective of an exporter working in a second language, the intricacies and jargon of these laws can be a challenge.

Through talking to their export customers, companies have been able to understand what is required of them, develop systems to manage risk and promote transparency. Those exporting to two or more sensitive markets have realised that fundamentally all the market-based legislation has similar requirements and that a single, sound system can meet customer requirements.

The best systems have been developed using all of the tools available: trade association materials, dialogue with communities and regulatory authorities, NGO materials and simply talking to peers in the industry.





Global Timber Forum