



Timber



Palm Oil



Beef



Soy

# Exercises

Autumn 2017



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# Session 1

## Supply chain mapping and risk identification

90 mins. 60 minutes preparation and work, 30 minutes presentations and discussion.

You are a compliance manager of a retailer of furniture and home goods 'Furniture Warehouse'.

You are looking to potentially begin buying three products –**a storage box, a bedside table, and a dining table** – from a Chinese trader (China Furniture International).

You have not bought from China Furniture International before.

Your purchasing Manager has been negotiating with China Furniture International.

You now need to do a due diligence evaluation of the three products.

You have requested information and supporting documentation on the supply chains and country of origin for each product from your Purchasing Manager so that you can investigate the risks at the national level in each country.

The Purchasing Manager provides you with the following description:

China Furniture International is a large furniture trader that has FSC and PEFC chain of custody certification.

The products that it sells are manufactured by many different companies.

The three products you are interested in are all supplied by different manufacturers.



# Storage Box

Jia Ju Furniture makes the storage box. It comprises MDF panels that are covered by a veneer.

The MDF is made of eucalyptus and pine that is grown on farm land in China.

The MDF manufacturer Chang MDF sources the wood from farmers that harvest trees on their own land.

The manufacturer buys the veneer from another mill, which sources FSC-certified timber from an FSC certified forest management company.

# Bedside table

The bedside table is made of Mongolian oak from the north east of China.

Hao Sawmill saws the wood and sells it to Cong wood furniture, who makes the table.



# Dining table

The dining table is made of wenge that was harvested from a forest concession in the Democratic Republic of the Congo.

A sawmill company saws the timber and exports it to China. The manufacturer Mu Cai Tables sells the final product to China Furniture International.







1. Supplier information		2. Product information					3. Origin				4. Risk assessment	
Supplier name	Supplier country	Product type / description	EU Product Group	PRODUCT verification / certification	Species (scientific name)	Species (trade name)	Country of harvest	Sub-national region of harvest (if known)	Supply chain information	Access to legality documentation	Risk assessment conclusion	Risk description and justification
China Furniture International	China	Storage box (veneer)	9403 60	FSC	Populus deltoides		China	Jiangsu Province	FSC forest management certificate of the FMU  FSC chain of custody certificate for Jia Ju furniture	Complete	Low	Low risk, as the material is FSC-certified and the FSC certificate database shows that the certificates are valid.

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China Furniture International	China	Bedside table	9403 50	No	<del>Quecus mongolica</del>	Mongolian Oak	China	North-east China	Harvest document for forest Certificate of Origin  Customs documentation for export from China  Invoices and delivery notes between some but not all tiers	Incomplete	Specified	The origin is near the Russian border and there have been reports about illegally logged timber from Russia being transported to China and processed for sale. We assume extra checks will be needed here.

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Supplier name	Supplier country	Product type / description	EU Product Group	PRODUCT verification / certification	Species (scientific name)	Species (trade name)	Country of harvest	Sub-national region of harvest (if known)	Supply chain information	Access to legality documentation	Risk assessment conclusion	Risk description and justification
China Furniture International	China	Dining table	9403 40	No		Wenge	Democratic Republic of the Congo	Concession	Forest concession contract Forest management plan Court of Commerce registration of the concession holder Invoice between concession and DRC sawmill and exporter Export certificate Batch report ready for exportation Invoice between Mu Cai Tables and China Furniture International	Complete	Low	The Court of Commerce registration of the concession holder show that it is legally registered and the forest concession contract and forest management plan indicate that the timber was legally harvested. The export documentation also indicates legal export. Scientific species name is needed.

## 1. Supply Chain Mapping

Prepare a supply chain map based on the information provided by the Purchasing Manager.

## 2. Risk identification

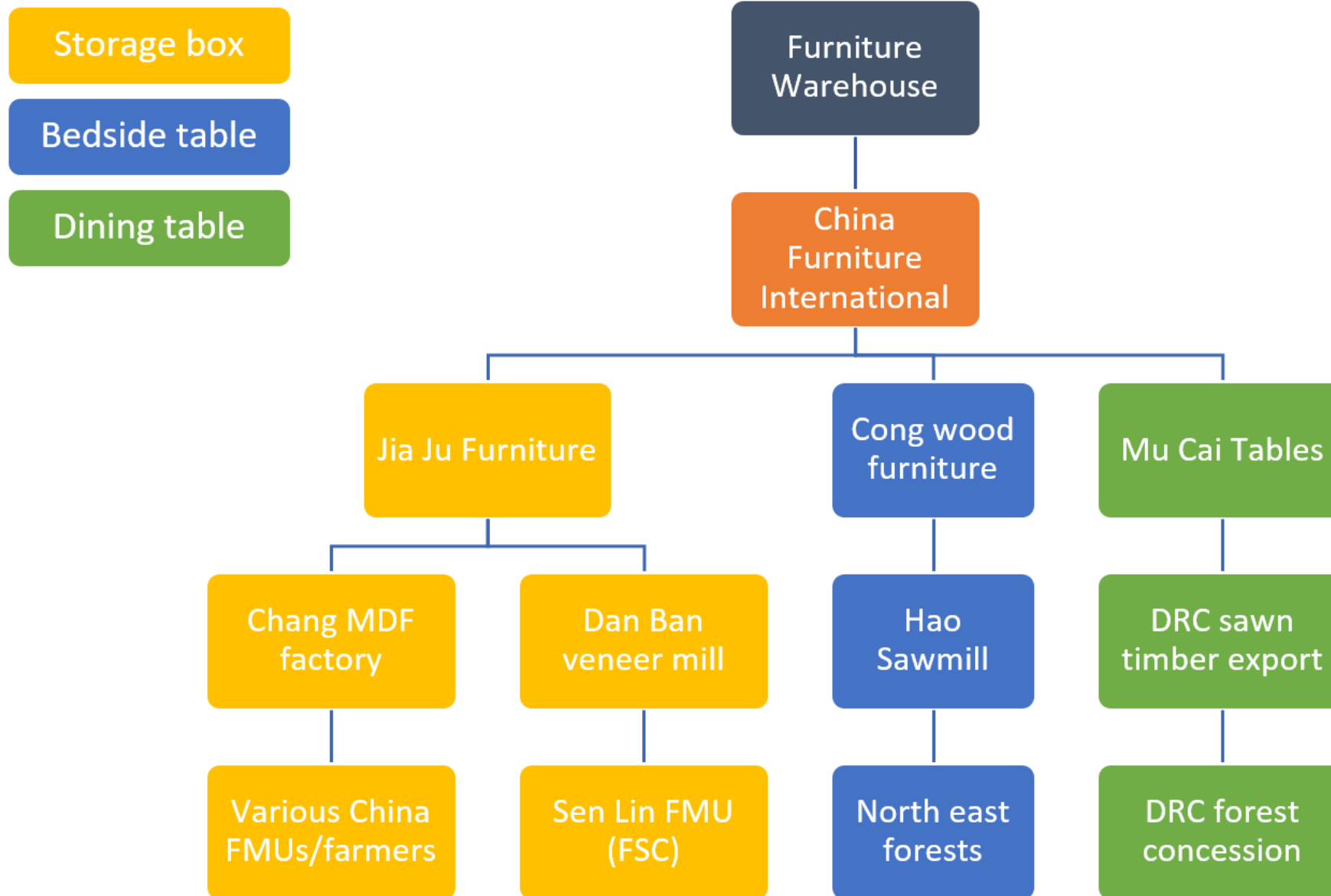
- a) Evaluate the supply chain information and risk description contained in the simplified Supplier Management Form (DD-04) (some columns have been removed).
- b) Evaluate whether the level of information regarding the following is satisfactory:
  - 1. Product type
  - 2. Species
  - 3. Origin of the material
- c) Evaluate and conclude whether you find the existing risk assessment conclusions and justifications appropriate, and why/why not.
- d) *If you have time*, prepare your own risk description and justification for one of the supply chains. The tool DD-08 Risk Identification Checklist provides a comprehensive list of topics/questions for doing this.

**Be ready to present and discuss the results.**

- NEPCon Sourcing Hub country pages
- DD-04 Supplier Management Form
- DD-08 Risk Identification Checklist



## Supply chain map



## MDF

- Wide range of possible species need to be specified, and scientific name needed
- Composite product means that there is risk of mixing/substitution
- Description of sub-national region is invalid, unhelpful
- No supply chain documentation supporting the origin – declaration not evidence on its own. Supply chain is well-documented after this step, but the origin is of most concern.
- There are a wide-range of potential risks due to scope of applicable laws that must be considered – lack of licence requirements does not apply to these
- More consideration of the source type and what laws and risks would apply is needed.

## Veneer

- Certification does not automatically mean low risk
- No mention of invoices, including from immediate supplier that would contain certification claim - veneer mill potentially not certified
- Certification scheme must be evaluated for coverage of legal requirements – there is no mention of that having been done.

- Agree with risk conclusion, but description requires expansion
- There is risk that the wood is from Russia, but if it is from China it could (likely) be illegal due to logging ban – origin must be verified. Oak very unlikely to be from plantation, but maybe over quota logging is still allowed.
- Various legality risks must be considered.



# Dining table

- Scientific name should be specified
- Lack of supply chain evidence in DRC
- Few documents do not indicate low risk of all legal requirements – long list of legality risks that must be considered



# Session 2

## Risk specification and mitigation

90 mins. 60 minutes preparation and work, 30 minutes presentations and discussion.

1. **Risk specification – mixing of material from other origins in the supply chain**
  - a) Select one supply chain and consider where the principle mixing risks lie. (see 'Supply chain complexity (Risk category # 10-12) in DD-08 Risk identification checklist and 'Risk mitigation'
  - b) Present a summary of your findings to the group.
  
2. **Risk specification – forest level**
  - a) Review the country pages and national risk assessments for China and the Democratic Republic of the Congo, which can be downloaded from the NEPCon Sourcing Hub (<http://www.nepcon.org/sourcinghub>).
  - b) Develop an overview of risks associated with one sourcing country and one category of law
  
3. **Risk mitigation**
  - a) Pick two of the risks that were specified in the risk assessment and consider how they affect your supply chain(s).
  - b) Evaluate options for mitigating the specified risks and select risk mitigating actions you would choose to establish, considering effectiveness and cost efficiency.

**Be ready to present your findings.**



NEPCon Sourcing Hub (<http://www.nepcon.org/sourcinghub>)

- Country pages
- Risk assessments
- Risk mitigation guides
- Document guides

DD-01 Due Diligence Guidelines

DD-08 Risk identification Checklist

# DD-08 Questions 10-12

10	Supply chain complexity	10,1	Does the supply chain consist of many tiers back to the forest of origin?
		10,2	Does the supply chain span different countries before the final product is placed for commercial circulation?
11	Product complexity	11,1	Is the product made of multiple material components?
		11,2	Is the product or its components made from composite or complex materials?
12	Material identification	12,1	Could the input material be substituted by similar material inputs which have a different species or origin?
		12,2	Can supply chain entities provide clear documentation and information on the material input and species included in the product?

**Trade and  
transport**

- Risk that companies involved in transportation of wood do not produce the field book, which contains information on quality, quantity, species, the date of felling, the discharge date and the place of destination) for the transported wood
- Risk that the field book contains false or difficult-to-verify information, in order to pay less tax than required for the volume, quality and/or species harvested
- Risk that timber is transported without the necessary transport permit from the Forestry Administration, or with a falsified permit.
- Risk of illegal transfer pricing, under-invoicing and other similar practices
- Risk of export of timber without an authorisation for purchase, sale and export from the ministry in charge of forests, only relying on a sales contract
- Risk that timber is exported illegally to neighbouring countries by small-scale loggers, including certain forestry companies that hide behind this identity to avoid paying export taxes or reforestation taxes at the border control
- Risk that operators or traders abuse the special local permits and authorisations for logging and harvesting of CITES protected species by presenting them as authorisations of export, exploiting the complacency or ignorance of agents and controllers of the State assigned to customs services. CITES permits have to be obtained abroad and are difficult to obtain
- Risk of harvesting of protected species without a special harvesting permit or a special harvesting authorisation from the General Secretary of the Administration of Forests

## **1.17.3. Legally required documents or records**

- Registration certificate or pink card
- Automobile insurance
- Transport authorisation
- Certificate of statutory roadworthiness test
- Driver's license
- Harvesting license
- Special harvesting permit

2. Timber is transported without the necessary transport permit, or with a falsified permit

*Risk relates to all permit types*

**I. Review and verify documents**

- a. Obtain transport permit and verify that volume, species and qualities shall be classified according to legal requirements.
- b. The purchaser should ask to see the circulation permit and the field book and make sure they contain all the information: the species, volumes, qualities, dates, etc. identified in the field book should coincide with the wood the purchaser has ordered from the supplier.
- c. Documents related to transportation and trade shall be clearly linked to the specific material in question and with the information included on the invoice.
- d. Report of the control missions of the administration agents to see if any transport violation has been detected;
- e. Minutes of proceedings of officers and officials under oath if there have been infractions;
- f. Reports from the independent observer (ex. REM) of forest control which will identify infractions if any have been identified.

**II. Consult**

- a. Stakeholder consultation (authorities, communities, social civity..) shall confirm that no transport violation or infractions have occurred.

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