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# Due Diligence System for Responsible Procurement

(compliant with the EU Timber Regulation)

Furniture Warehouse Ltd  
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Disclaimer: Furniture Warehouse is a fictional company and the due diligence system has been created purely for training purposes. Whilst based on the authors' experiences of the due diligence systems of timber companies across Europe any resemblance to a specific company is merely coincidental.

## Introduction

This manual represents the timber furniture products procurement manual for Furniture Warehouse aimed at meeting the company Policy on responsible and legal sourcing.

The objective of this manual is to ensure that sourcing and procurement of timber furniture products are carried out while performing a due diligence process to minimise any risks that Furniture Warehouse are sourcing or placing on the market any products with an unknown or illegal origin.

With regards to this manual and the implementation of its different sections the term Due Diligence is interpreted as a series of steps taken in the process of Furniture Warehouse to minimise the risk of sourcing and procuring timber or timber products that originate from illegal sources.

The contents of the manual are aimed at meeting the requirements for the EU Timber Regulation's requirements for due diligence referring to the Regulation (EU) No 995/2010 of the European Parliament and of the Council of 10 October 2010 laying down the obligations of operators who place timber and timber products on the market (which can be downloaded from this website: [http://ec.europa.eu/environment/forests/timber\\_regulation.htm](http://ec.europa.eu/environment/forests/timber_regulation.htm)).

## The Fundamentals of Due Diligence

The fundamental concept of exercising due diligence is to carry out the required actions to minimize the risk of sourcing illegally logged timber and timber products. Such actions include assessing the risks of sourcing illegal logging and mitigate those risks. To assess risks, it is fundamental that information is accessible about the product or material in question. Such information includes the certification / verification of the material and other information such as the country of origin and supply chain information.

## Procedures and Documents

The following documents make up the complete procurement programme and due diligence system.

The following table provides an overview of the due diligence system documents, procedures, forms and templates accompanied by a short introduction to their objectives and use.

Table 1: <b>overview of due diligence system documents and procedures</b>	
TR-01	Sourcing Policy
TR-02	Due diligence system manual
TR-03	Supplier letter and consent form
TR-04	Supplier information form
TR-05	Supplier management form
TR-06	Risk identification checklist
TR-07	Supplier audit checklist

## Sourcing Commitment

Furniture Warehouse is committed to sourcing legal material. Our commitment has been clearly stated in our Responsible Sourcing Policy.

No wood products shall be placed on the EU market before applicable access to information and risk assessment has been carried out AND negligible risk has been confirmed OR, in the case the risk cannot be declared as negligible, effective risk mitigation actions has been carried out.

## Quality System

### Responsibilities

The overall responsible person for compliance with all applicable requirements is the Procurement Officer.

The following division has been made of specific responsibilities.

Table 2: <b>division of responsibilities</b>	
<b>System element</b>	<b>Responsible position</b>
Training	Compliance Manager
Maintenance of procedures	Compliance Manager
Maintenance of documents	Office Assistant
Risk assessment	Purchasing Manager
Risk mitigation	Purchasing Manager

### Training

In our company training is relevant for all employees of the company. Training is provided to all staff based on this manual covering full procurement system to assure that relevant staff has relevant competencies to carry out their specific tasks as required for their position as well as ensuring that the EUTR requirements are met. Training is conducted once a year or when specific training needs arise. New staff will be introduced to this manual as well as other relevant material and procedures before they start work. The Managing Director is responsible for implementing this training procedure.

The date of training, list of participants and brief overview of the topics covered will be documented for all training. Training of new staff is documented by signature of the staff person and the date of training on a separate staff instruction sheet.

Record and documentation of training and competence development activities shall be stored on file for a minimum of 5 years.

### Maintenance

The overall responsible position for due diligence system maintenance shall ensure that the due diligence system is maintained, reviewed and revised as necessary on an annual basis, unless a 3rd party has been contracted to do this.

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In case no 3<sup>rd</sup> party due diligence system is use the system responsible shall be responsible to carry out an annual evaluation of the system as well as ongoing revisions as needed.

Supply chain and risk assessment results shall be revised whenever changes are made to supply chains, sources or new suppliers.

## Record keeping

To enable the monitoring of the procurement system effectively, records covering all steps and elements shall be kept. Records can be available digitally or on paper. The minimum maintenance time for all records is 5 years.

The table below provides summary of the records which are relevant for the due diligence system.

Table 3: <b>records maintained for the due diligence system</b>	
<b>Record name</b>	<b>Location</b>
Purchase invoice	Electronic Management System
List of suppliers	Electronic Management System
Volume information	Electronic Management System
Annual volume summary	Electronic Management System
Stock inventory	Electronic Management System
Sales invoice	Electronic Management System
Internal Audit Reports	Digital, Share Folders
Supply chain information	Digital, Procurement Share Folders
Risk assessment records	Digital, Procurement Share Folders
Supplier verification audit documentation	Digital, Procurement Share Folders

## Material Control

### Access to Information

To assure relevant and sufficient access to information about products, wood origin, sources and suppliers we are implementing the following procedures. Gaining access to relevant information about our supply chain and sources is a key component of our procurement system and a prerequisite for implementing due diligence in our sourcing of wood products.

Furniture Warehouse documents the following information about all products sourced outside the EU and placed on the EU market:

1. The type of product as well as the name of tree species used for all products placed on the market.
2. Name and address of current suppliers
3. Name and address of buyers
4. The certification/verification status of the material and their supplier
5. Country of origin
6. Sustainability

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The following information shall be collected when necessary for the evaluation or mitigation of risks:

- Sub-national region or Concession of harvest where the timber was harvested;
- Documents or other information indicating compliance of those timber and timber products with the applicable legislation.

It is essential that all necessary wood origin documentation be secured from the supplier. For each purchase of timber, the necessary wood origin documents, which can demonstrate the harvest site and help to verify the legality of the harvest, can include the following:

- All invoices of log or sawn timber purchase.
- Contracts
- Customs Declaration Forms
- Forest Authority Inspection Reports
- Government Logging Grants and Concessions
- Certificate of Origin
- Evidence that the legality documentation is in fact connected to the material received.

#### Collecting supply chain information

To enable risk assessment and evaluate our supply of timber we collect information about our sources and supply of material and products. All information shall be collected to a level that enables identification of the country of origin, certification status and further assessment of risks (if applicable).

To facilitate the collection of supply chain information we are using consent form **TR- 03**, which should be sent to all our suppliers to inform them about our supplier requirements and our commitment to comply with the EUTR. The letter also asks the suppliers to identify the certification status of material they supply to us. This will allow us to evaluate the number of suppliers that supply certified material and approximate volume.

To this end we use the **TR - 04** Supplier Information Form that asks the supplier to fill in basic information about the products they are supplying as well as key information about certification status, species and origin of the material/products supplied to us.

For suppliers that do not wish to disclose confidential information about their supply directly to us we may have no option but to source these lines through alternative routes that fulfil the requirements of the regulation

#### Recording and analysing supply chain data

In the document **TR – 05** Supplier Management Form data on suppliers to us is to be collected. The template contains instructions as to the data to be collected. Once **TR – 05** has been filled in with information about suppliers this information can be used in the risk assessment process. It

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is therefore important that the information in **TR – 05** is filled in as completely and accurately as possible.

**NOTE: Missing information about the supply chain indicates a risk and requires mitigation measures to be implemented.**

#### **Update and revision of data**

Data on suppliers and supply chain shall be updated annually or whenever changes are made to the supply chains.

**NOTE: The system shall not be applied retrospectively, for material already supplied to us. The information about sources, suppliers and products/material shall always be current and updated before material or products are placed on the market.**

#### **Evaluate gaps in information**

The data collected using RS forms shall be reviewed prior to application in the risk assessment process. Any information missing from the table should be evaluated and considered to be a gap in the information available. Gaps in information shall be recorded in the same table and inserted into the **Risk Mitigation Action Plan**

Once information has been collected that enables risk assessment this shall be carried out.

### **Risk Assessment**

The risk assessment is carried out based on the supplier and sub-supplier information on the origin and supply chains of material.

The risk assessment is carried out for all material that is included in products that are placed on the EU market AND covered by the scope of the EU Timber Regulation.

The risk assessment process includes review of the products, the species used, their source and the supply chain complexity in assessing whether the risk of illegal timber being sourced can be designated as negligible or not.

We consider timber or timber products as having a negligible risk of being illegal if **all** the following applies:

- a) There are no verified cases of illegal practices for one or more companies involved in the supply chain;
- b) There is no reported prevalence of illegalities regarding the country of harvest or the tree species;
- c) The supply chain involves a limited number of companies which are all identified;
- d) All documents that are necessary to indicate compliance of the timber or timber products with the applicable legislation are made available by the supplier(s);
- e) Level of corruption of the country of harvest is low.

Below follows an overview of the risk assessment process and relevant templates and tools.

### Classification of certified and un-certified material

An important factor in assessing risks of wood products is the status of the wood as certified or verified against a credible certification standard.

Material and products sourced with no certification or verification shall be treated as a separate category.

There are many different certification standards currently being implemented globally and many of these provide some level of assessment of legality as well as provide the ability to access information about the country, region or area of origin of the material.

### Using the Risk Identification Checklist

The risk assessment checklist is a tool designed to ensure that risks are systematically assessed and evaluated for each of our products/material placed on the EU market.

The **TR - 06: Risk Identification Checklist** follows the principal requirements for evaluating risks that is outlined in the EUTR as regards the differentiation between different types of risks:

**1. Risks originating from the source or origin:** the risk originating from the country, region or FME or area of harvest is the risk that the timber has been harvested in contravention of the applicable legislation. The website <https://www.nepcon.org/sourcinghub/timber> is used to identify countries with non-negligible risk. Any country with “unspecified” risk of illegal logging will be considered to have non-negligible risk, unless the supply chain and material/product is covered by a sufficient certification or verification.

**2. Risk originating from specific species:** some species carry more risk of being illegally logged than others. This differentiation in risk for species may depend on the value, scarcity or demand for this particular species. During the risk scoring it is evaluated whether the species in questions are known to have been subject to illegal harvesting or trade. Naturally the country, region or area of origin also plays an important role in the level of risk for specific species; i.e. one species may be subject to illegal harvest in one area, but not in another. Therefore, the use of species as a risk category is not conclusive; species should therefore be used only as an indicator of risk and not as a definitive risk decision category. This is also reflected in the risk assessment checklist.

**3. Risk originating from the supply chain:** risks in the supply chain may originate from two points: (1) complexity of the supply chain and (2) complexity of the product. Very complex supply chains may increase the risk that material of illegal origin is mixed with legal production. Complex supply chains make it difficult to access relevant information about the material and its origin and while that may not be a risk of illegality it will make it harder to assess risks and perhaps to identify the source of material. The same is basically true for component products that may be produced from material from several sources, several species and several separate and unrelated supply chains. This naturally also increases the risk that illegal material can be mixed into the production as well as making access to information hard or impossible. The main issues related to the supply chain therefore relates to the ability to assure that the products received have not been mixed or substituted with illegal or unknown origin. Also, it is by supply

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chain information that we can assure that the products received corresponds to the documents and descriptions of them at each stage of the processing and trade of the material.

These three categories all contribute to the risk a specific material or product carries, and therefore we are using these as categories for risk scoring in our system.

The conclusion under each category is classified as having a low or specified risk.

For any product that is identified as having a risk rating as “specified”, risk mitigation actions shall be planned and implemented.

The “risk mitigation action plan” tab in the checklist is used to outline the plan for and status of current risk mitigation actions.

To be able to fill in the risk mitigation action plan it is essential that all information available about each product and supply chain has been evaluated.

## Risk Mitigation

The process of mitigating risks builds on the result of the risk assessment. Any risks that have been identified as not being low during the risk assessment shall be mitigated according to the following procedures.

The different steps for risk mitigation shall be outlined in the “risk mitigation action plan” tab of TR-06, the Risk Identification Checklist.

The general risk mitigation strategy contains the following options for risk mitigation:

1. requesting additional information or/and documents,
2. self-conducted audit in the supply chain,
3. requiring third party verification, and,
4. replacing risky suppliers and/or products.

It should be underlined that the course of action taken to mitigate risks depends on the type and severity of the risk identified during the risk assessment process as well as available options for replacement of the product, and third-party verification. The following options for risk mitigation actions are therefore a description of a full range of options, whereas only one or more of these may be selected for implementation.

The Risk Mitigation Action plan will outline the actual course of action taken to mitigate risks.

## Development of a Risk Mitigation Plan

In all cases where risks have been identified to contain a non-negligible risk a risk mitigation action plan shall be developed.

“risk mitigation action plan” tab of TR-06, the Risk Identification Checklist shall be used to develop a plan for how and when the identified risk shall be mitigated. The Risk Mitigation

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Action Plan shall be developed by the Compliance Manager and shall be approved by management.

The plan and its implementation shall be reviewed regularly by the management.

The plan to mitigate risks shall contain the following minimum requirements:

#### **TO BE COMPLETED**

The risk mitigation plan document is used to record and keep track of risk mitigation activities. IMPORTANT: Where risks are found that cannot be mitigated by any of the mitigating actions implemented, we shall terminate sourcing this particular material or product.

#### **Collection of Additional Information**

The initial mitigating action is to request and collect additional information about the source or supply of specific products based on the identified gaps in knowledge or identified risks in the supply chain. Collecting additional information may supply the required assurance that the relevant legal requirements are met and the risks can be considered as negligible.

If collecting additional information cannot provide such assurance of low risk, we will initiate additional steps in assuring that the risks are mitigated.

We implement the following procedure for requesting and securing additional information that may provide the necessary information to ensure that the material/product is of legal origin.

A key to assuring access to relevant information about the supply chains and sources of wood products is to maintain an up-to-date overview of our supply chain that supplies timber. This overview is created by recording information collected from suppliers (and sub-suppliers) about the complete supply chains of individual products

The overview of relevant supply chains can be found in document TR – 05, Supply Management Form.

#### **Supplier Information**

To collect relevant information about our suppliers we are using TR-04, Supplier Information Form.

This Form shall be send to suppliers prior to placing material purchased from this specific supplier on the EU market, to ensure that appropriate information is provided and risk assessment concluded. Also, if necessary, risk mitigation measures must be carried out on sources with unknown or non-negligible risk before placing on the market.

#### **Supply Chain Information**

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Detailed supply chain information is collected via requests to suppliers to identify the supply chains of the products purchased from them.

To collect supply chain information, we are using the TR-04, Supplier Information Form.

Changes to supply chains shall be updated in the supply chain overview document as soon as possible after changes are made.

## Verification

### **Self-Conducted Supplier Verification**

Where risks have been identified that cannot be mitigated by accessing additional information alone we shall initiate other mitigating actions. One option is to carry out verification of the supply / product in question.

### **Third Party Verification**

In cases where risks have been identified and we have decided that we will not carry out a self-conducted verification audit we shall require a qualified third party to carry out the verification in our place.

Before a verification organisation is chosen it shall be established that the standards and procedures implemented by this organisation meets all applicable requirements to assure conformance to the EUTR.

## Replacement

### **Replacement of Non-Negligible Risk Suppliers/Products**

In cases where suppliers or products have been identified to include a risk that cannot be mitigated by any of the above mention risk mitigation options (or other possible options that may be used) the specific supplier or product shall be replaced by one that can be confirmed to have a low risk or one where all risks can be mitigated.