



Experience from implementation of EUTR

Barcelona, April 2015



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About NEPCon



About NEPCon

Engaged in legal and sustainable forest management

- ✓ Danish non-profit organisation
- ✓ Twenty years experience nature conservation and sustainable forest management practices
- ✓ Market based approaches to transforming producing, processing and purchasing behavior
- ✓ Recognized EUTR Monitoring Organization, August 2013
- ✓ Working with the Chinese Academy of Forests
- ✓ Partner of Rainforest Alliance



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Case Study:
Furniture
Retailer



Case Study: Furniture Retailer

Key characteristics

- Furniture and houseware retailer
- 160 stores in 11 countries
- 1200 permanent staff
- Under current control by CA



Case Study: Furniture Retailer

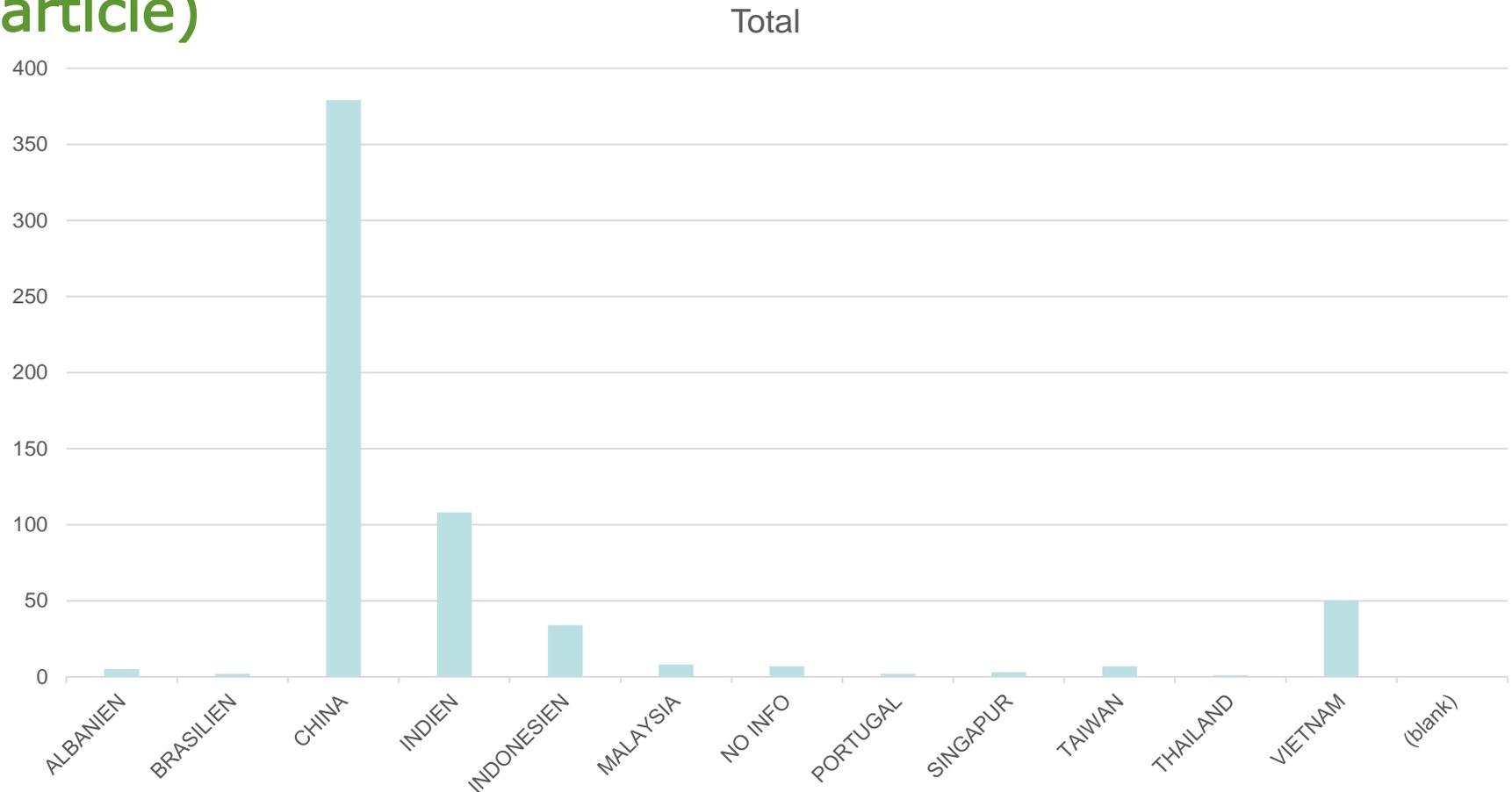
Supply chain overview

- App. 606 articles containing wood
- 68 different suppliers in 14 countries
- Wood originating from at least 11 countries
- 270 Articles containing MDF
- 25 species (reported)
- Only 39 articles FSC certified



Case Study: Furniture Retailer

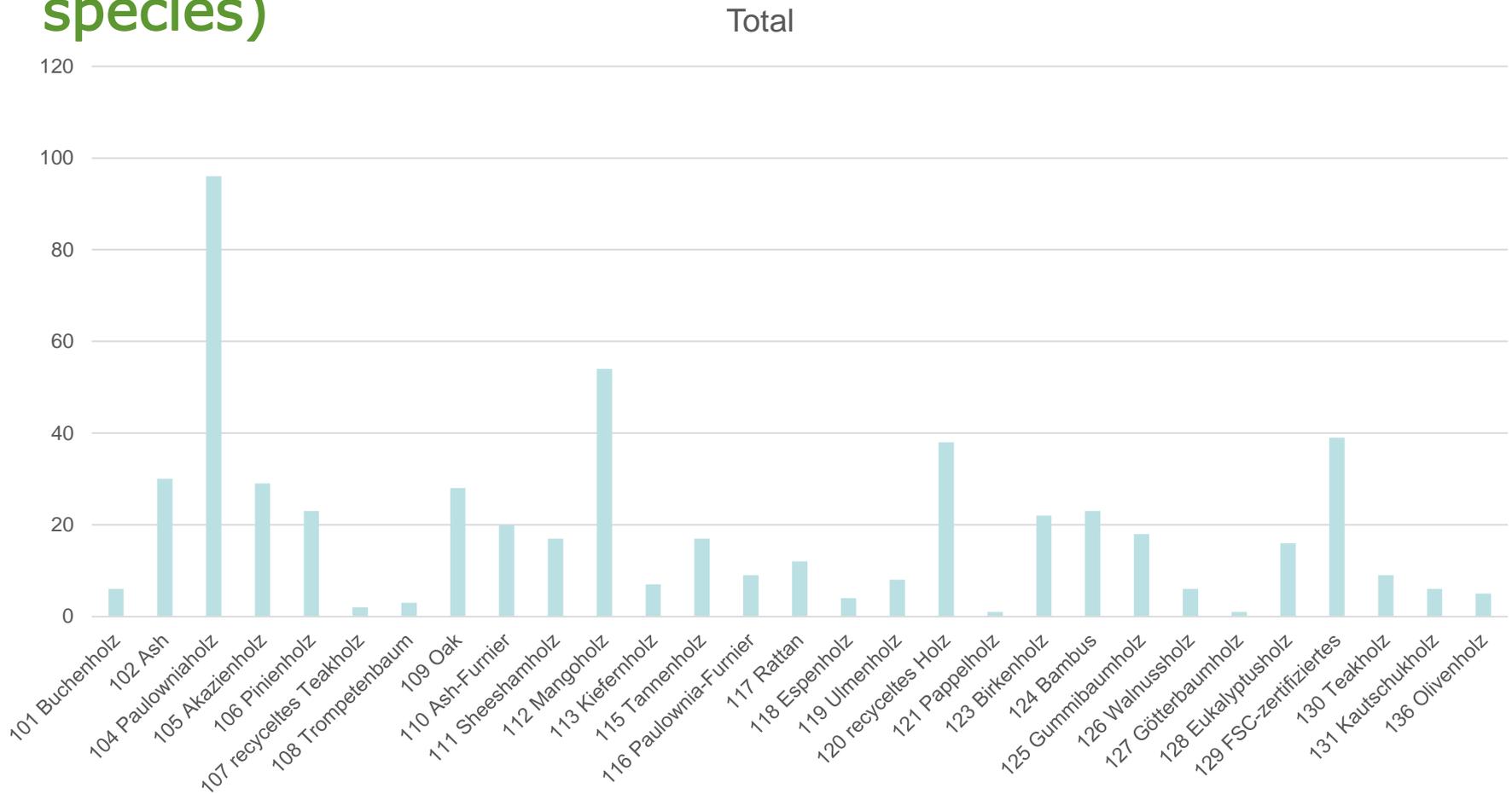
Distribution of origin of material (reported per article)





Case Study: Furniture Retailer

Species compositions (# articles containing each species)





Case Study: Furniture Retailer

Observations during evaluation

- General DDS
 - Staff of company not competent to evaluate forest-related information
 - No documented procedures
- Access to information
 - Supplier self-declarations not precise and not verifiable
 - Species and origin information often incorrect
 - Some documents form supply chain (DDS certificates, other documents)
 - Often complex and opaque supply chains
- Risk Assessment and mitigation
 - Not implemented



散料车辆
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Case Study: Furniture Retailer

DDS development STEP 1...

- Communicate and inform suppliers (online training)
- Development of action plan to address gaps in DDS
- Supplier visits (China)
 - Inform on requirements
 - Evaluate ability to provide information
 - Evaluate information available
 - Map supply chains (if possible)



Case Study: Furniture Retailer

Supplier audits China: findings (1)

- Information made available by Suppliers regarding supply chain, species and forest origin was (with few exceptions) **incorrect and incomplete.**

Species

- Wide-ranging levels of confidence in information:
 - High: some solid wood and veneer components
 - Medium-very poor: other solid wood/veneers and composite or multi-specie mixes (plywood and MDF).
- Multi-specie products: suppliers mostly unable to facilitate a list of species where this is the case.



Case Study: Furniture Retailer

Supplier audits China: findings (2)

- **Integrity of the information provided to company on existing supply chains.**

Origin of materials

- Wide-ranging levels of confidence in Suppliers' knowledge of - and ability to verify - origins of materials.

Recycled Material

- Suppliers lacked measures to improve supply chain transparency and verify the recycled nature of the material.

Legality of Material

- Suppliers lacked measures to consistently provide access to legality documentation.



Case Study: Furniture Retailer

Conclusions

- Not possible currently to provide full access to information about many supply chains
- Great uncertainty about species and origin
- Some material groups like MDF may not be possible to conduct DDS on – due to complexity of input
- A lot of material sourced in China, but also from other countries.
- Based on gaps in information – not possible to conduct thorough risk assessment or risk mitigation



Case Study: Furniture Retailer

Next Steps

- National and regional level risk assessment in China
- Mapping supply chains
- Species and source identification
- Species and product specific risk assessment
- Follow-up with suppliers
- Further development of DDS procedures to ensure continued implementation by retailer purchasing staff.
- Risk mitigation
 - Onsite forest level legality verification
 - Document verification and supply chain mapping
 - Source certified
 - Change suppliers



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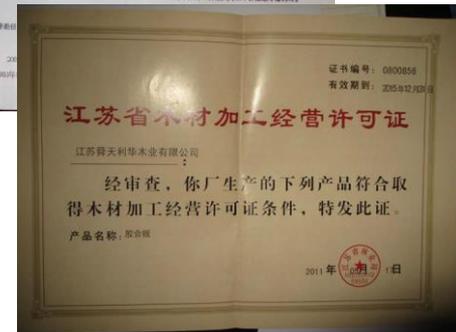
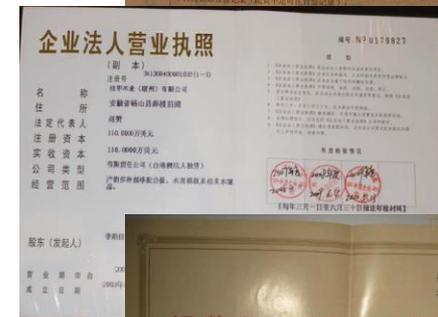
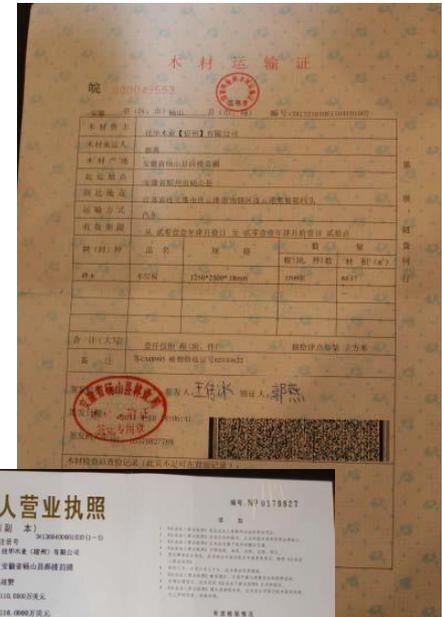
Some notes on
Due Diligence



The Role of Documents

Questions an operator should be able to answer regarding documentation:

- How is it *related* to the applicable products or supply chains?
- Can the *validity* of the documents be verified/tested?
- What is the actual *content/purpose* of the document?
- *Relevance* in relation to applicable legislation and risk assessment?
- *Language* staff understands?
- Continuity in documentation





Risk Assessment

The Forest Legality Assessment Framework

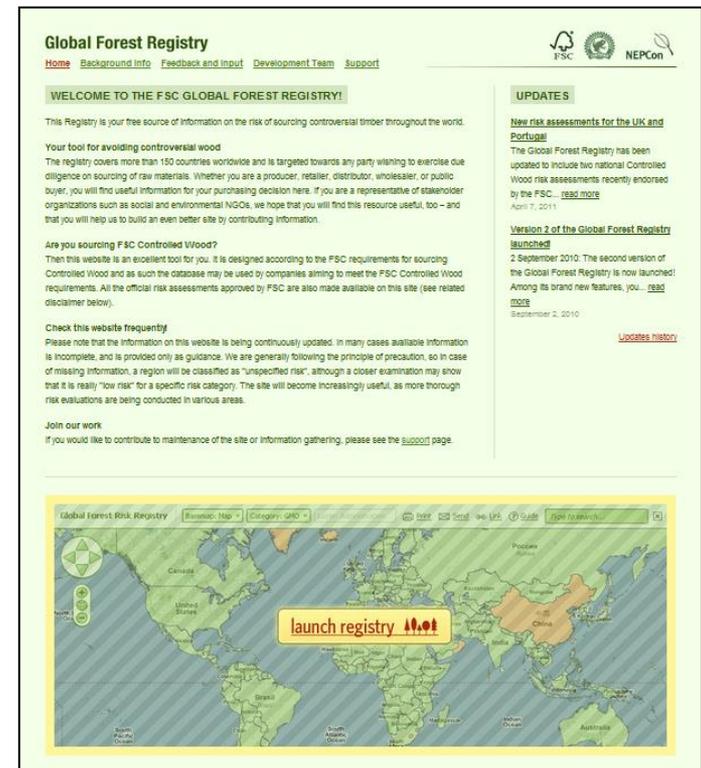
FSC CW system: Global Forest Registry

www.globalforestregistry.org

Global database with information on applicable legislation, and forest sector risks.

High level of detail – based on EUTR legality categories

Basis for mitigating risks



The screenshot shows the homepage of the Global Forest Registry. At the top, there is a navigation bar with links for Home, Background Info, Feedback and Input, Development Team, and Support. The main content area features a 'WELCOME TO THE FSC GLOBAL FOREST REGISTRY!' message, followed by a brief introduction and a 'WELCOME TO THE FSC GLOBAL FOREST REGISTRY!' section. Below this, there are several informational paragraphs and a 'Check this website frequently' section. On the right side, there is an 'UPDATES' section with a 'New risk assessments for the UK and Portugal' announcement and a 'Version 2 of the Global Forest Registry launched' announcement. At the bottom, there is a 'Join our work' section. The footer of the page features a world map with a 'launch registry' button overlaid on it.



Forest Legality Assessment Framework

1. Legal rights to harvest

- 1.1 Land tenure and management rights
- 1.2 Concession licenses
- 1.3 Management and harvesting planning
- 1.4 Harvesting permits

2. Taxes and fees

- 2.1 Payment of harvesting royalties and fees
- 2.2 Value added taxes and other sales taxes
- 2.3 Income and Profit Taxes

3. Timber harvesting activities

- 3.1 Timber Harvesting Regulations
- 3.2 Protected sites and species
- 3.3 Environmental requirements
- 3.4 Health and safety
- 3.5 Legal employment



Forest Legality Assessment Framework

4. Third parties' rights

- 4.1 Customary rights
- 4.2 Free, prior and informed consent
- 4.3 Indigenous people rights

5. Trade and transport

- 5.1 Classification of species, quantities, qualities
- 5.2 Trade and transport
- 5.3 Offshore trading and transfer pricing
- 5.4 Customs Regulations
- 5.5 CITES



Risk determination (Description, ...)	Control measures and verifiers (identify specific relevant control measures and verifiers)	Specify risk as either 'specified risk' or 'low'
<p>In Brazil, land</p> <p>Forestry activit and managem</p> <p>Historically, lar plantations thr</p> <p>There may be</p> <p>The existing le extra-judicial r one ownership calls for legitim</p> <p>Therefore ther government is</p> <p>The IMAZON : production) wa penalties is les</p> <p>Brazil can be c to 10 where 10 r</p> <p>In addition, the perception tha</p> <p>Because there concluded tha</p>	<ul style="list-style-type: none"> – Land registry shall confirm ownership and validity of property deed. – The business register shall confirm valid business licenses to operate within the jurisdiction. – In areas with land ownership conflicts, consultation with neighbours, the local communities and others shall confirm that land tenure rights are clear. – Stakeholder consultation can be used to confirm legal status of the operation; or that the rights established for conducting activities are not subject to court orders or other legally established decisions to cease operations. – The management contract or other agreements with the owner shall indicate clear management rights. – Valid business registration documents shall exist. – Inspections of harvesting site shall confirm that harvesting (including felling, transport and log landings) takes place within property limits. – A map with the traditional communities close to forest areas should be created to help identify potential conflicts over land use, depending on the size of the enterprise. 	<p>Specified risk for all districts</p> <p>ids;</p> <p>land in owner</p> <p>be by</p> <p>r</p> <p>of 0 (7.2).</p> <p>, it is</p>

CHINA COUNTRY PROFILE

LOW RISK

HIGH RISK



KEY RISK FEATURES

CORRUPTION PERCEPTION INDEX

CPI value 2013: 40

DOMESTIC TIMBER HARVESTING

Medium-low to Low risk.

IMPORTED MATERIAL:

The high risk of China comes mainly from its imports – especially from tropical countries and Russia

Forest, plantation & species information

According to FAO (2010) China has around 207million ha of forested land, comprising approximately 22% of the country's land area. China Forestry Database (2011) figures are lower by 10 million ha (and 1.7%).

All land, including forest land, is owned by the Chinese government, with management/harvesting rights being assigned or leased to state-owned entities, collective farms or private enterprises or forest farmers. Collectives manage about 58% of forest land, while 42% is managed by the state in the form of state forest farms or state forest bureau.

Natural forests

The 10 most abundant trees species groups in Chinese forests are: oak (*Quercus spp.*), Masson, Yunnan and other pines (*Pinus spp.*), Chinese fir (*Cunninghamia lanceolata*) and other firs, birch (*Betula spp.*), larch (*Larix spp.*), poplar (*Poplar spp.*), spruce (*Picea spp.*), cypress, and fir (GAIN 2009, UNECE 2009).

Natural hardwood production forests are still active in north-eastern China providing the following species: oak (*Quercus spp.*), ash (*Fraxinus spp.*), birch (*Betula spp.*) and linden (*Tilia spp.*).

Plantations

According to FAO, planted forest may now cover as much as 77m ha (37% of all forest area) with annual increases ranging between 2.8% and 4.3% in the last 10years.

China's principal plantation species include:

- Masson Pine (*Pinus massoniana*)
- Exotic pines (*Pinus spp.*)
- Poplar (*Poplar spp.*)
- Eucalyptus (*Eucalyptus spp.*)
- Larch (*Larix spp.*)

Certification/Verification Facts

FSC certification:

- FM/CoC: 61 certificates. 3,322,380 ha (Jan 14)
- CoC: 3229 (Jan 14)

PEFC certification

- FM: 0 certificates. 0 ha (Nov 13)
- CoC: 203 (Nov 13)

CFCO certification (www.cfo.com.cn/legalist)

- FM: 16 certificates, 2,018,255 ha (Feb 2014)
- CoC: 8 (Feb 14)

Timber legality verification

- China is not an EU VPA partner, but some activity has been coordinated with the EU FLEGT Facility. See www.sulfact.org/inf/506
- Rainforest Alliance Verification of Legal Compliance (VLC) active clients: 3
- SCS Legal Harvest™ Program: 1

- Chinese Fir / Redwood (*Cunninghamia lanceolata*)

Around 40% of Chinese domestic timber production has derived from plantations, with the rest coming from natural forests (EIA 2013). This may be decreasing.

Timber imports

China has become the world's largest importer, consumer, producer and exporter of wood products. It is a leading wood-processing hub on a global scale.

China imports annually 10-12million m³ RWE of wood products from tropical countries (GLA). The vast majority is in the form of round logs then, secondly, as sawn timber. China sources tropical timber from a wide range of countries and is renowned for importing large volumes from countries with high risk of illegal logging.

COUNTRY PROFILE: China

China imports app. 20-25million m³ RWE of temperate hardwoods and softwoods from Russia annually (GLA). Imports are mostly in the form of round logs or sawn timber, with the sawn timber proportion increasing to over 50% in proportion over the last decade. Principal source of supply is the Russian Far East and East Siberia.

A rapidly increasing volume of temperate raw materials are deriving from lower-risk countries such as Canada, USA, EU27, Australia and New Zealand. Imports of logs and sawn timber have increased 5-fold in the last 5 years. Imports now stand at around 20million m³ RWE for logs and 14million m³ RWE for sawn timber (GLA).

CITES species

Currently, no commonly commercially traded timber species from China are listed on any of the CITES appendices. Following are listed on CITE appendices:

- *Diospyros vera*
- *Pinus koraiensis*
- *Taxus chinensis*
- *Taxus cuspidata*
- *Taxus fuana*
- *Taxus sumatrana*
- *Taxus wallichiana*
- *Aquilaria grandiflora*, *A. sinensis*, *A. yunnanensis*

Forest Legality Risks

Domestic material

Legality concerns around home-grown wood material can probably be considered as **moderate-low**. The majority of stakeholders comment that Chinese laws are reasonably appropriate and adequately enforced (FT 2011). However, some issues have been reported and some potential irregularities remain:

- Discrepancies in data relating to forest removals and domestic production (GLA, IFR 2004, WWF 2004).
- While ownership rights to standing timber are clear, in some regions (e.g. southern collective forest region) some problems exist where ownership by forest farmers is often encroached.
- Questions regarding potential irregularities with regards to land allocation processes for the plantation sector remain (FT 2011, RRI 2010).

Though not reported to be a large scale or high impact issue, it must be considered that some risks do exist in China's domestic forest harvesting.

Imported material

The main risk factor originates from imports – especially for tropical hardwood imports (FT 2013).

Various studies have estimated the proportion of illegal timber in imports; from 20-25% (CH 2010) to 30-40% of imports and industrial production (GLA)

Steps have been taken by China to address its role in the illegal timber trade, including the (in progress) development of a timber legality verification scheme and collaborations with other countries to tackle trade and procurement concerns. These demonstrate China's capacity and activity to raise awareness - and influence the procurement - of legally-harvested wood products. There are no plans at this moment in time to follow suit with other trading-blocks such as the EU, USA, and Australia to enact national legislation.

It is estimated that 52% of log and 41% of sawn timber imports in 2011, derived from "high risk" countries for illegal logging. Increasing imports from lower-risk countries may help reduce these figures over time.

Supply Chain Risks

Prevalence of complex and opaque supply chains due to numerous forest sources (domestic and imported), multiple traders and middle men and composite products. Large volumes of timber processed in China are imported, often with little or no information on forest origin (TFT 2011).

Mixing of similar and/or same species is common in the supply chain. E.g. Russian hardwoods such as oak are mixed with oak from Chinese northeastern forests and timber imported from the US and EU.

Chinese Customs Processing Trade Book ("Customs Book") records raw materials imports intended for processing and subsequent export. There appears to be widespread fraud throughout this system, to reduce the payment of taxes and duties (EIA 2013).

A very significant proportion of China's imports of wood products from tropical countries and Russia are likely to be illegal.

Fraud in technical specifications and product description add another layer of illegality.

High Risk Species

- *Agathis spp.*
- *Pterocarpus spp.*
- *Tectona grandis (Teak)*
- *Dalbergia spp.*
- *Diospyros spp.*
- Korean Pine (*Pinus koraiensis*)

Species risks for China relates to a very high degree on the origin of the species.





Country Profiles

- Description of the key risks
- Overview of nominally legal sources
- Documents used on full supply chain
- List of applicable legislation



Risk Mitigation

Specified risk shall be mitigated according to control measures.

Use of documents if:

- Supply chain can be verified
- Documents can be independently verified
- Suppliers are willing and able to support
- Need for local level verification

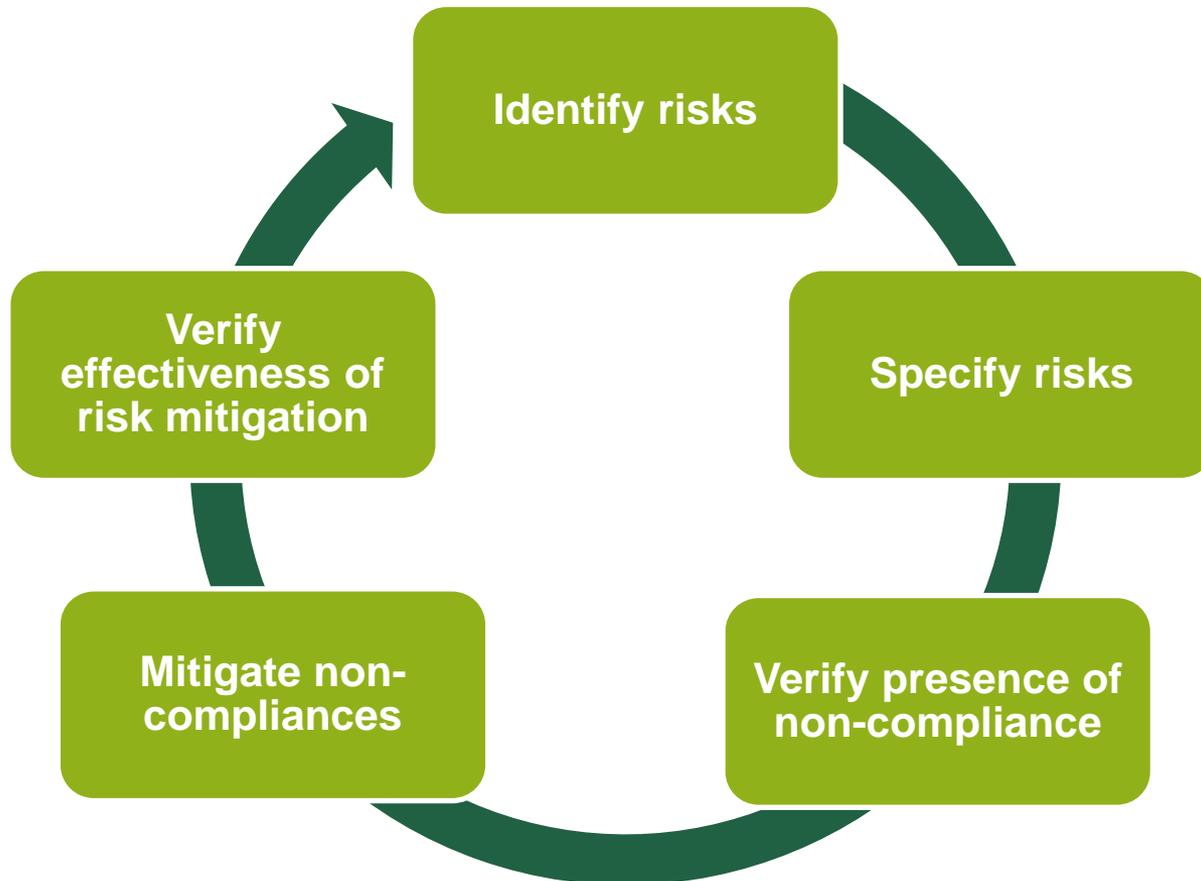
On-site orest level verification of legality (for high risk in most legality categories)

Sourcing certified timber
Change suppliers



Risk mitigation: Controlling the cause of risk

Process overview





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Views on EUTR implementation



Reports from Operators

Challenges and view

- Varying sense of necessity to meet EUTR
- Varying levels of enforcement between EU Member states – confusion as to what the correct level is?
- Significant steps taken by some companies, but majority rely solely on documents (or nothing).
- What about EU forests?
- Requests for more guidance on risk assessment
 - Thresholds, methods
 - The more you look, the more issues will arise
 - Dealing with legal compliance is not a simple matter





Reports from Operators

The role of the MO

- Relatively low interest in MO services – most companies seek advice and technical support
- MO function is unclear to Operators and benefits not clear
- Industry reacts to increase in control by authorities
 - However, the use of long stepwise phase in enforcement has created a feeling that there are no consequences.



General Observations

Challenges of the role of MO

- Public access to MO standards and systems
 - Lack of transparency "we can get you EUTR compliant"
- Communication with CA
 - No formal procedures
- Ability of MOs to provide support to Operator's upstream suppliers
 - Some challenges the "certification approach"
 - Transparency is the key



General Observations

FLEGT VPA and EUTR?

- Resources available to the VPA process – no clear support for EU industry
- EU industry challenged with legal obligations – trade continues
 - Synergies?
 - New approaches?
 - Connect between VPA and EUTR



Key Conclusions

- Little incitement for importing operators to join an MO - risk of reporting.
- Need for uniform and strong enforcement
- Need for clarity
 - DDS
 - Risk information
- Varying interpretations of the regulation within different countries – risk threshold, role of documents



A unique perspective

Thank you
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**CERTIFIED
WOOD
UPDATE**

www.nepcon.net/newsletter

NEPCon works to ensure responsible use of natural resources and secure sustainable livelihoods by transforming land-use, business practises and consumer behaviour.