Due Diligence Presentation 2015

The EU Timber Regulation (EUTR) Regulation (EU) No 995/2010
So, who is QSL?

- Location
  - Cambridgeshire & China
- Capabilities / Services
  - EUTR Due diligence, ISO QMS & Ethical Auditing, Technical support
- Client base
  - Factories both UK, EU and Far eastern
  - Wholesalers – Traders - Manufactures
  - Retailers

what we do with regards to the EUTR?
Keep it simple!

Many of the companies involved in the Supply chain do not speak English as their first language.

Using simple terminology to gather the information required is the best option.
Due Diligence System

- QSL’s due diligence system has three steps:
- **Step one:** Request information from source

<table>
<thead>
<tr>
<th>Range</th>
<th>Description</th>
<th>Product code</th>
<th>Raw material</th>
<th>Timber Species (Botanical) Name</th>
<th>Timber Common Name</th>
<th>Timber species Risk</th>
<th>CBM of Raw material used</th>
<th>Country Of Harvest</th>
<th>Country risk</th>
<th>Certified?</th>
<th>Additional Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>E.g dining</td>
<td>Dining table</td>
<td>123456</td>
<td>Solid wood veneer</td>
<td>Abies alba</td>
<td>Fir, European Silver</td>
<td>Negligible Risk</td>
<td>0.01</td>
<td>Bulgaria</td>
<td>High Risk</td>
<td>NONE</td>
<td>local community forest</td>
</tr>
<tr>
<td>MDF</td>
<td>Custom top</td>
<td>678901</td>
<td>Acacia mearnsii</td>
<td>Acacia</td>
<td>Negligible Risk</td>
<td>0.23</td>
<td>China</td>
<td>High Risk</td>
<td>FCS accredited SGS-COC 012345</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MDF</td>
<td>Custom top</td>
<td>678901</td>
<td>Quercus spp</td>
<td>Oak (unspecified)</td>
<td>Negligible Risk</td>
<td>0.35</td>
<td>USA</td>
<td>Negligible Risk</td>
<td>FCS accredited SGS-COC 087605</td>
<td></td>
<td></td>
</tr>
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</table>

- Description of product.
- Species (common and scientific names).
- Country of harvest and region of harvest.
- Quantity – either as volume, weight or number of units.
- Breakdown of product by raw materials.
- Names and addresses of suppliers.
  - SCM (Supply chain map)
  - This details the chain back from the factory to the forest source
Step Two: Risk Assessment

- Based on the information given by the supplier further documents will be requested.
- Assurance of compliance with applicable legislation e.g. Certification schemes FSC/PEFC/SVLK.
- Prevalence of illegal harvesting of specific tree species is the species high risk.
- Prevalence of illegal harvesting practices in source country/region within that country.
- Complexity of the supply chain
  - How many sources or species are being used in a raw material – e.g.: MDF, plywood & Chipboard
- Is the product in scope?

### EUTR - Raw Material Risk Assessment

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<td>High Risk</td>
<td>NONE</td>
<td>FCS accredited SGS-CCO-012345</td>
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<tr>
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<td></td>
<td></td>
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</table>
One Supply chain map is required for each raw material
Risk Level

- Low Risk Species
- Low Risk Country
- Supporting documents
- Report detailing how this was achieved

- High Risk Species
- High Risk Country
- Not enough supporting documents
- Missing links in the chain

- Mitigation required
  - Further documents
  - Supply chain visits

- The aim is to achieve a ‘negligible risk’ for each raw material
Good Supply chain

Solid Acacia, harvested in Malaysia and shipped to Vietnam for manufacture before entering the EU – FSC source to the trading company
Supporting Documents

• Copy of FSC certificate for the forest and each company in the chain
  • Check that the certificate is still valid
  • Reports are uploaded onto the FSC web site
  • The species is detailed

• Invoices from the forest source to the saw mill and for each company in the chain, FSC number detailed on the documents.

• Invoices, Transport or import documents from the factory to the EU Operator, the FSC number detailed on the documents.

• There are no missing links in the chain.
Difficult Supply chain
Quantity Of documents

- Documents to check can reach up to 50+ for a complex chain
• **Step Three:** Mitigation

• Additional information required to clarify documents sent for verification.
  • Business permits
  • Land ownership documents
  • Transport documents showing raw material movement

• visits to the Facility.
  • Document training
  • Bridging the gap - getting to know the supply base directly
  • Segregating and labelling raw material being stored where required
Challenges that are still being faced

1. UK and EU Orders can be much smaller than other customers such as the US.
2. Other customers are not requesting this information on the same level.
3. Suppliers send documents that may be forged or out of date.
4. Suppliers often ask how they can get around this.
5. Suppliers will not provide documents for the supply chain as they think you will cut them out and go direct to source – this is often where trading companies are being used.
6. Supply chain will not share information – pricings etc.
7. Accredited material is higher in price.
Cost comparison

• NON Accredited product vs FSC Accredited Product

• Dining table - Raw material used – Solid White oak, Mdf, White oak veneer, Acacia
  - FOB Price = $176
  - Wholesale Price = £175
  - Retail Price = £599
  - FOB Price = $211.20
  - Wholesale Price = £207
  - Retail Price = £729

• Large Sideboard - Raw material used – Solid White oak, Mdf, White oak veneer, Plywood, Acacia
  - FOB Price = $250
  - Wholesale Price = £260
  - Retail Price = £949
  - FOB Price = $250
  - Wholesale Price = £310
  - Retail Price = £1240

• 150cm Bed - Raw material used – Solid White oak, Poplar, White oak veneer
  - FOB Price = $230.50
  - Wholesale Price = £275
  - Retail Price = £1150
  - FOB Price = $250
  - Wholesale Price = £326
  - Retail Price = £1300
Cost Implication

- FSC / PEFC accredited raw material increases the cost prices by........

18-20%

- This does price some products out of the market for some retailers as they cannot compete with retailers who have large buying capabilities.

- A smaller retailer may even cut out the wholesaler or agent to achieve this.

- Buying direct means there is a smaller supply chain and less pieces of the pie to be shared so becomes achievable.

- Unfortunately retailers are driving prices down to achieve better margins and be more competitive.
Impacts to the trade

• Small retailers:
  • Buying direct from Factories or websites
    • Some have no knowledge of the regulation, so are at high risk of the possibility of using illegal timbers due to no Due Diligence in place or not enough to support legality.

• Wholesalers / traders:
  • Most have Knowledge of the Regulation.
  • Are in the middle often doing the sourcing.
  • Can collate products for different retailers giving better volumes to the factories.

• Larger Retailers:
  • Drive to push and setting the bar.
Retailer information 2014

- Top 10 Countries Ranked by Species used by a major blue chip company with 44 stores selling 3906 wood based products.
- Red indicated high risk countries for sourcing.
Retailer information 2014

- Top 10 species used in products
Retailer information 2014

- Due Diligence Covering all wood based products supplied.

<table>
<thead>
<tr>
<th>Product Level Analysis</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products Identified in Product Questionnaires</td>
<td>3906</td>
<td></td>
</tr>
<tr>
<td>Products with fully valid FSC Claim to final product</td>
<td>592</td>
<td>15%</td>
</tr>
<tr>
<td>Products with fully valid PEFC Claim to final product</td>
<td>65</td>
<td>2%</td>
</tr>
<tr>
<td>Products with invalid claims (Broken Chain Certification)</td>
<td>71</td>
<td>2%</td>
</tr>
<tr>
<td>Number of Products with no Certification Claims</td>
<td>3178</td>
<td>81%</td>
</tr>
<tr>
<td>Number of Products with broken FSC/PEFC Chains</td>
<td>970</td>
<td></td>
</tr>
<tr>
<td>Where the break is with the direct supplier</td>
<td>293</td>
<td></td>
</tr>
<tr>
<td>Where the break is with the manufacturing site</td>
<td>604</td>
<td></td>
</tr>
<tr>
<td>Total Number of Suppliers Returning Product Questionnaires</td>
<td>143</td>
<td>92%</td>
</tr>
<tr>
<td>Number of Suppliers Not Returning Product Questionnaires</td>
<td>12</td>
<td>8%</td>
</tr>
</tbody>
</table>
### COMPANIES IN THE SUPPLY CHAIN

<table>
<thead>
<tr>
<th>Supply Chain Entities</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies Identified in Questionnaires</td>
<td>569</td>
<td></td>
</tr>
<tr>
<td>Number with FSC Chain of Custody Certification</td>
<td>286</td>
<td>50%</td>
</tr>
<tr>
<td>Number with PEFC Certification</td>
<td>19</td>
<td>3%</td>
</tr>
<tr>
<td>Number Invalidated (Could Not Validate Existence)</td>
<td>156</td>
<td>27%</td>
</tr>
<tr>
<td>Number of Validated Uncertified Companies</td>
<td>108</td>
<td>19%</td>
</tr>
</tbody>
</table>

### MATERIAL QUESTIONNAIRE RETURNED - High Volume Lines with core products

<table>
<thead>
<tr>
<th>From Material Questionnaire Data</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials Identified in Material Questionnaires</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Materials with Accepted FSC/PEFC Claims</td>
<td>54</td>
<td>86%</td>
</tr>
<tr>
<td>Materials with Rejected FSC/PEFC Claims (due to uncertified company)</td>
<td>9</td>
<td>14%</td>
</tr>
</tbody>
</table>
What this Retailer is doing!

- This particular retailer is re-thinking how they do their due diligence.

- They are currently using an external web-based system which is complex and very time-consuming.

- They are bringing it in-house to have a better control.

- They are making it simpler.
Trader Information

- Customer base, QTY & Value of product shipped in 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Container qty (40' HC)</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>2200</td>
<td>$44,000,000</td>
</tr>
<tr>
<td>USA</td>
<td>1900</td>
<td>$38,000,000</td>
</tr>
<tr>
<td>Middle East</td>
<td>325</td>
<td>$6,500,000</td>
</tr>
<tr>
<td>Caribbean</td>
<td>100</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Germany</td>
<td>75</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Australia</td>
<td>36</td>
<td>$720,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4636</strong></td>
<td><strong>$92,720,000</strong></td>
</tr>
</tbody>
</table>

Country of Manufacture:
- China: 40%
- Vietnam: 30%
- Malaysia: 18%
- Indonesia: 12%
What are WE doing to overcome the hurdles

• Guidance on the requirements, assisting in setting up a robust due diligence system.
• Guidance on the Documents submitted are legitimate and correct, how to check these.
• Show examples of documents, but advise its their responsibility to request these from their supply chain.
• Contacting companies within the Supply chain.
• Advise that sensitive data can be omitted from the documents.
• Training at source with regular visits.
• Advise alternative sources.
• Continual improvement!
Spread The Word
Utilising Furniture Fairs Globally

http://www.worldfurnitureonline.com/Exhibition/Fairs.html

• This web site lists all the furniture fairs around the world and is the perfect place to educate factories and buyers at the same time
Thank you