



QUALITY SOLUTIONS LTD

# *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

EUTR - Raw Material Risk Assessment											
						Date: _____ Factory: _____					
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NOTE: Please breakdown each product by raw material used. Use the information in the drop down menu for the raw materials - add and remove cells where required:											
Range	Description	Product code	Raw material	Timber Species (Botanical) Name	Timber Common Name	Timber species Risk	CBM of Raw material used	Country Of Harvest	Country risk	Certified?	Additional Comments
E.g dining	Dining table	123456	Solid wood	Abies alba	Fir, European Silver	Negligible Risk	0.01	Bulgaria	High Risk	NONE	local community forest
			Veneer	Acacia measmii	Acacia	Negligible Risk	0.23	China	High Risk		FCS accredited SGS-COC-012345
			MDF	Quercus spp.	Oak (unspecified)	Negligible Risk	0.35	USA	Negligible Risk		FCS accredited SGS-COC-098765

- 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**



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NOTE: Please breakdown each product by raw material used. Use the information in the drop down menu for the raw materials - add and remove cells where required:

### EUTR - Raw Material Risk Assessment

Date: \_\_\_\_\_  
Factory: \_\_\_\_\_

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- 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?

## Supply Chain Map 2015

Factory						
Raw Material						
Species						
Risk level						
Conclusion						
Date						
	Node description	Name	Location (Province) and Contact Details	Supporting Document Description		If not available, please give explanation
Node 0	Forest Location			1		
				2		
				3		
				1		
Node 1	Logger			2		
				3		
				3		
				4		
				1		
Node 2	Saw Mill			2		
				3		
				4		
				1		
Node 3	Trader			2		
				3		
				4		
				1		
Node 4	Manufacture			2		
				3		
				1		
Node 5	Retailer / wholesaler			2		
				3		



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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

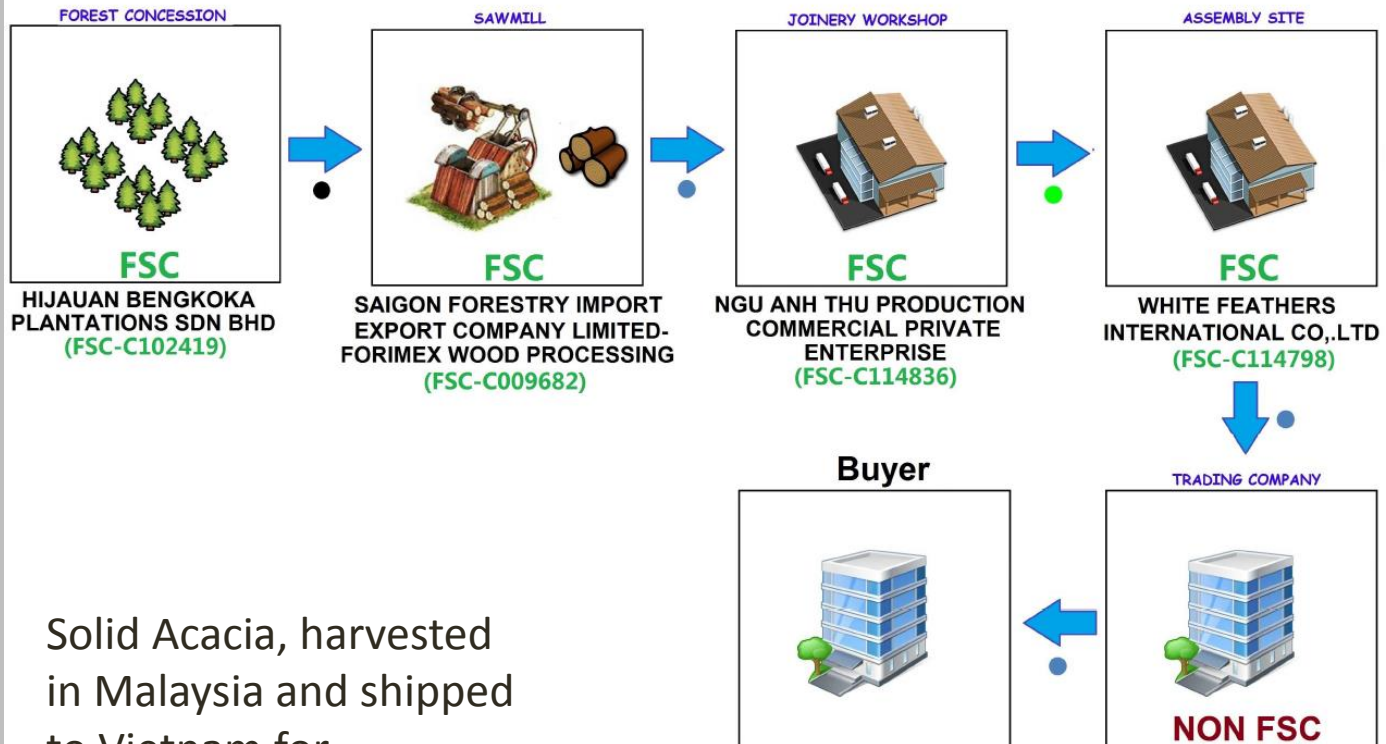


- High Risk Species
- High Risk Country
- Not enough supporting documents
- Missing links in the chain



- Mitigation required
  - Further documents
  - Supply chain visits
- The aim is to achieve a 'negligible risk' for each raw material

# Good Supply chain

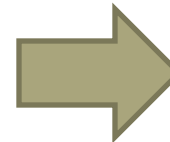
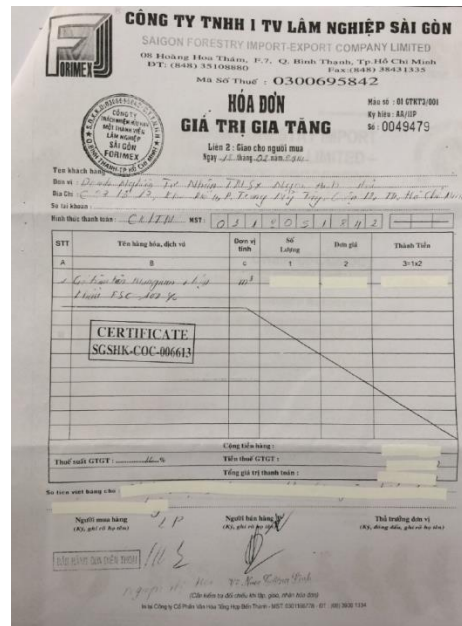
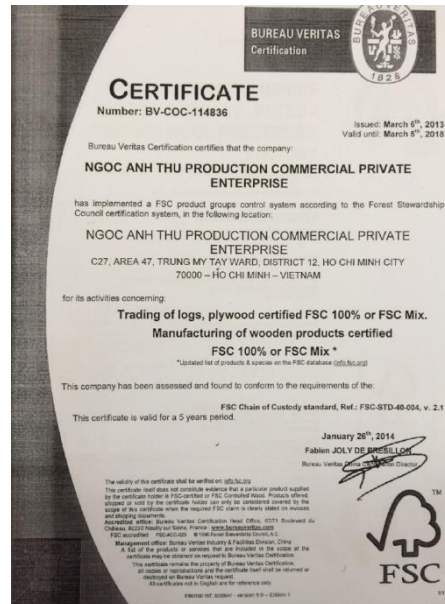
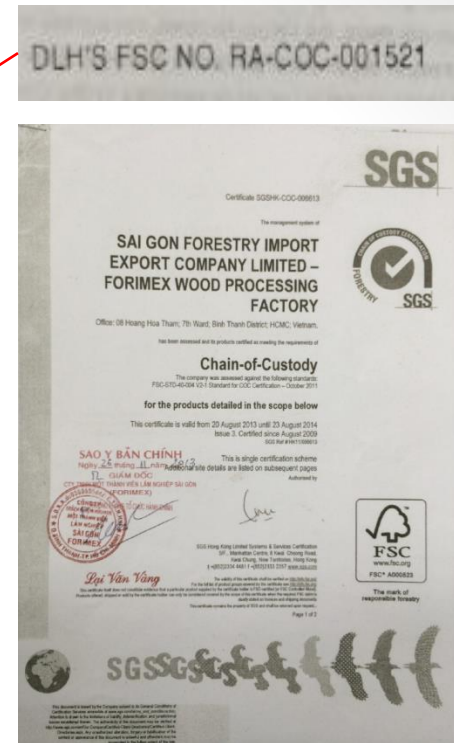
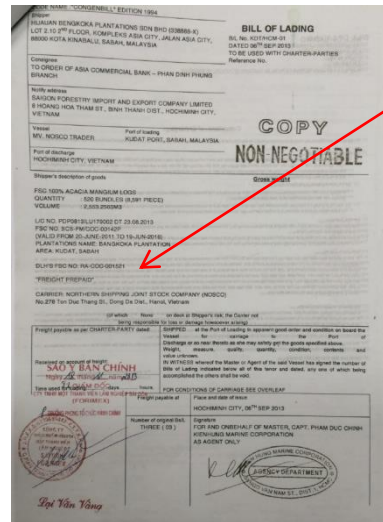
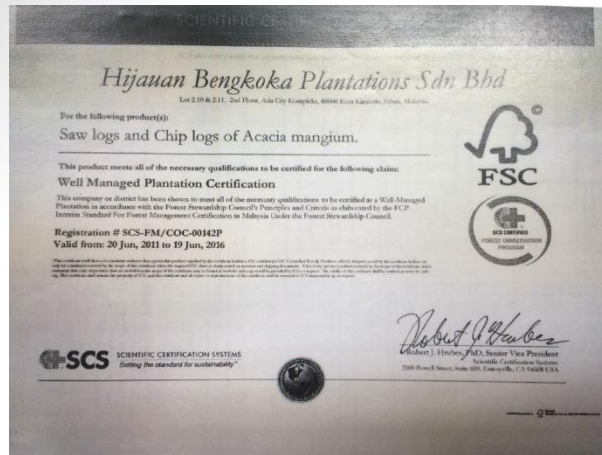


Solid Acacia, harvested in Malaysia and shipped to Vietnam for manufacture before entering the EU – FSC source to the trading company

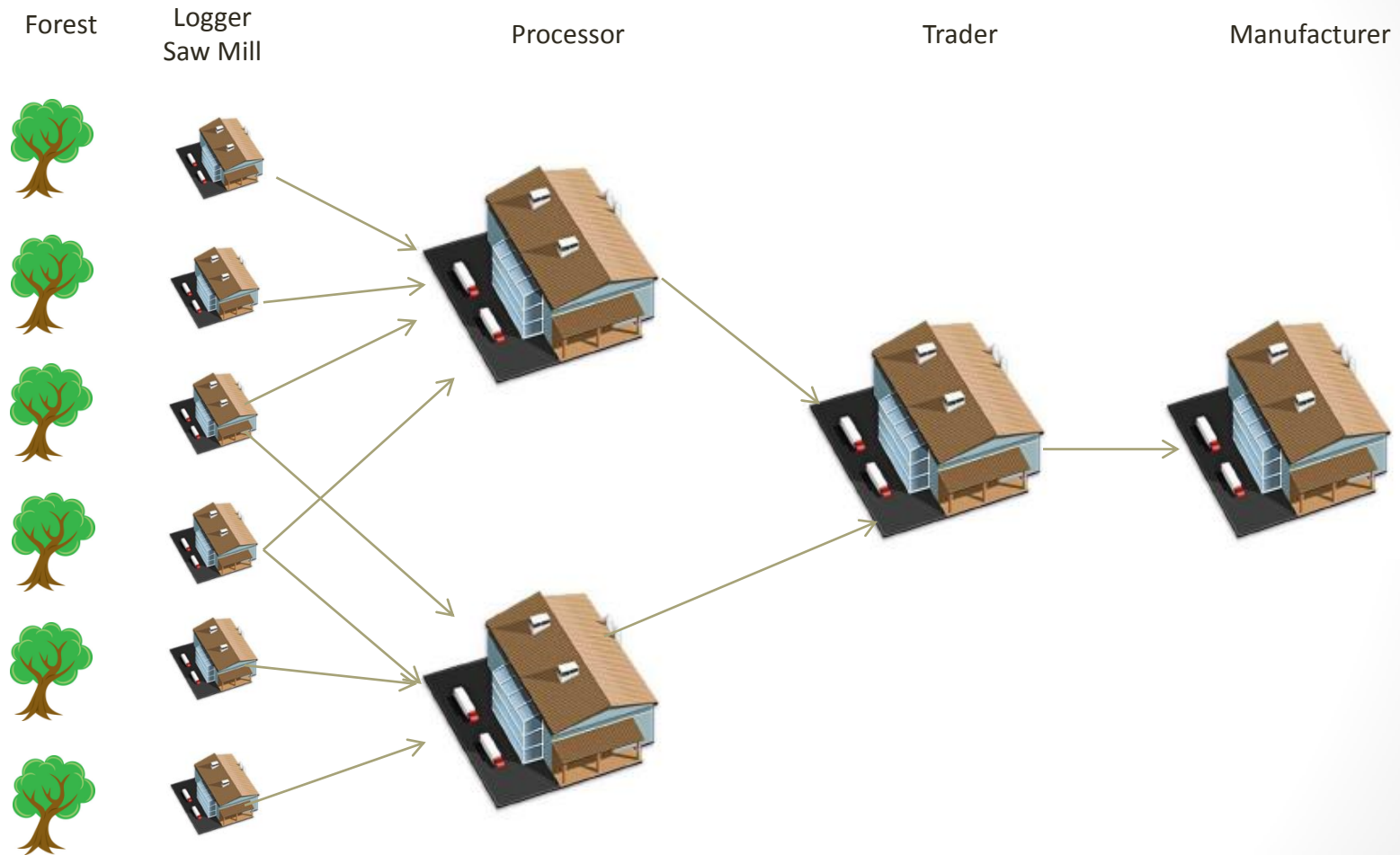


# Supporting Documents

- 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



- Documents to check can reach up to 50+ for a complex chain

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- ***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

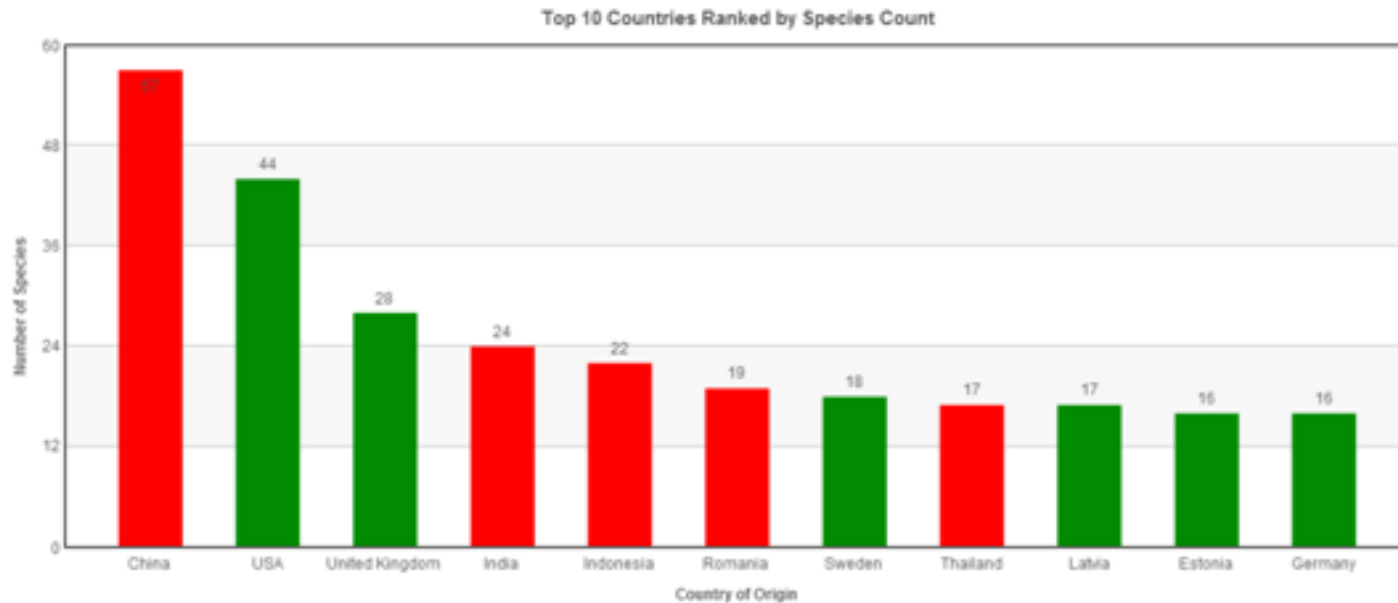


# *Impacts to the trade*

- 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.

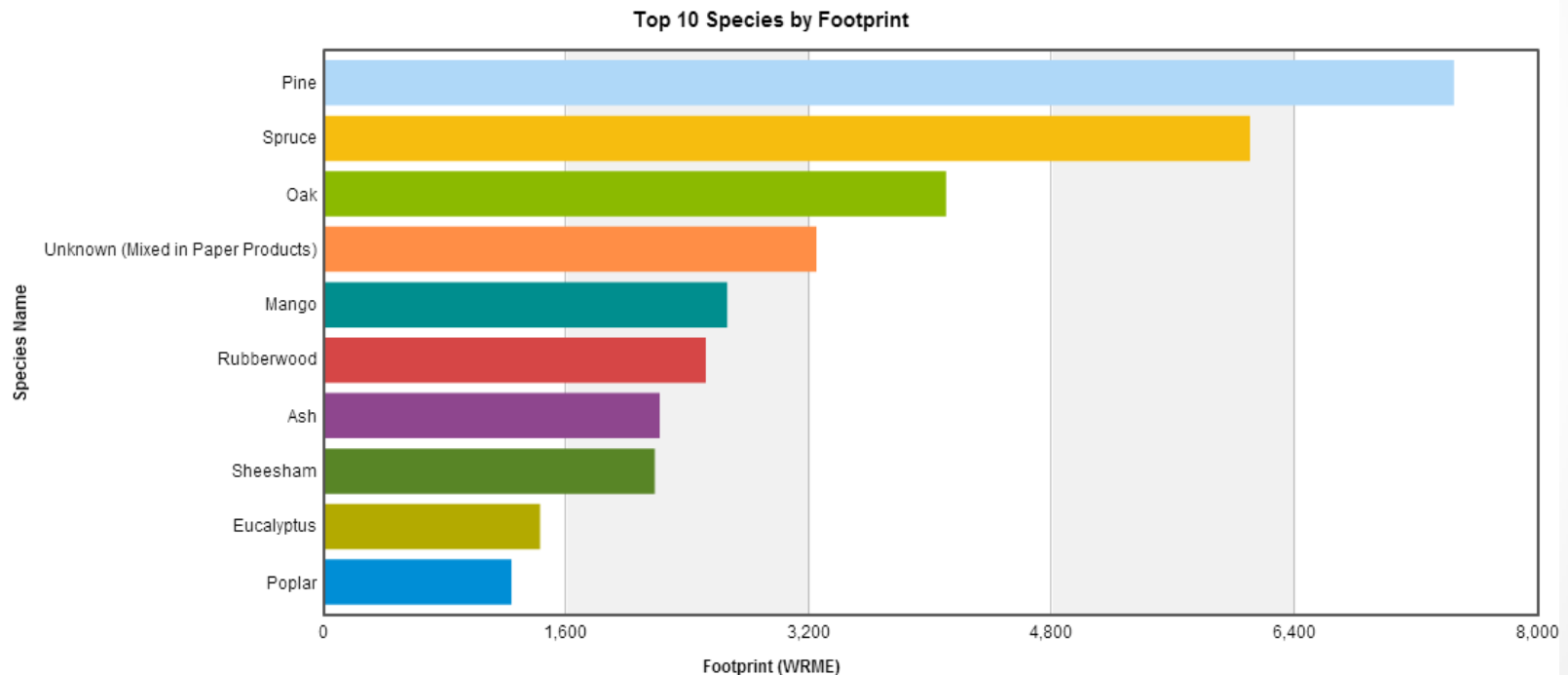
# Retailer information 2014

- 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.

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

# Retailer information 2014

COMPANIES IN THE SUPPLY CHAIN		
Supply Chain Entities	Total	% of Total
Number of Companies Identified in Questionnaires	569	
Number with FSC Chain of Custody Certification	286	50%
Number with PEFC Certification	19	3%
Number Invalidated (Could Not Validate Existence)	156	27%
Number of Validated Uncertified Companies	108	19%

MATERIAL QUESTIONNAIRE RETURNED - High Volume Lines with core products		
From Material Questionnaire Data	Total	% of Total
Materials Identified in Material Questionnaires	63	
Materials with Accepted FSC/PEFC Claims	54	86%
Materials with Rejected FSC/PEFC Claims (due to uncertified company)	9	14%

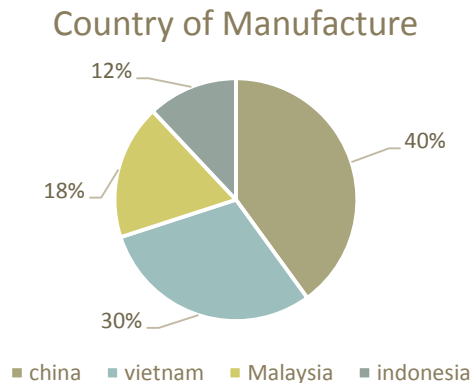
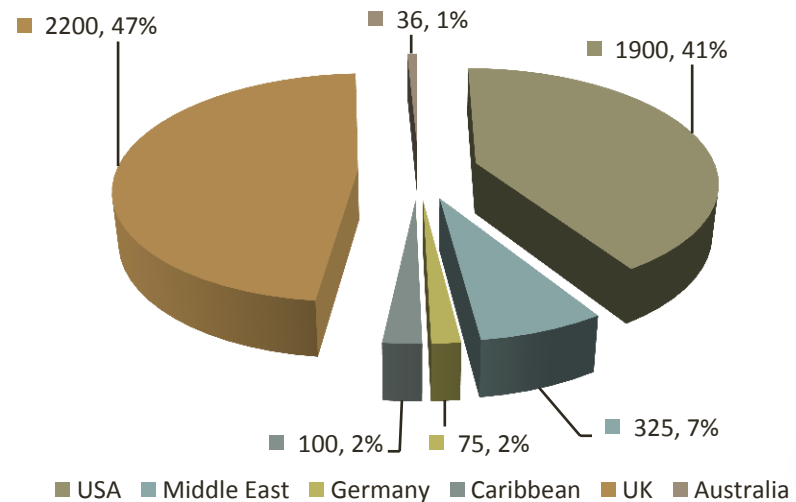
# What this Retailer is doing!

- This particular retailer is re-thinking how they do there 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

Country	Container qty (40' HC)	Vaue
UK	2200	\$44,000,000
USA	1900	\$38,000,000
Middle East	325	\$6,500,000
Caribbean	100	\$2,000,000
Germany	75	\$1,500,000
Australia	36	\$720,000.00
Total	4636	\$92,720,000



# *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

