Due Diligence & Supply Chain Sourcing

TFT’s Experience Working with Producers & Manufacturers in Complex Contexts

Presentation to the 3rd Potomac Forum on Illegal Logging & Associated Trade

March 24th, 2009 Washington D.C.
Tropical Forest Trust

Non-profit founded in 1999 in context of garden furniture/illegal logging campaign in Europe

Complex, opaque supply chains in SE Asia

We help businesses become ‘Forest Responsible’

• Products not linked to deforestation; illegal practices; environmental destruction

• Supply chain risk management, due diligence systems

• Forest management technical assistance to FSC certification

• Help them market their products and programs

90 staff, in 14 countries, inc. China, SE Asia, Brazil, Congo Basin
The TFT helps its Members & clients

Link their supply chains

From here

To here

Secure system
Legal wood
That is FSC certified
Or moving toward it
Not So Simple – Unconsolidated Supply Chains

- Traced wood
- Untraceable logs
- Untraceable sawn timber
- Untraceable dried wood
- Untraceable component and/or end product

TTAP Assessed

Untraceable sawn timber
Untraceable dried wood
Untraceable component and/or end product
Export Compounding
Lessons

March 1999

Garden Furniture

80,000m³ logs, 50 factories, 100% UKS, No COC

In-factory COC systems

Document audit – looking back

Wood Procurement - Buying FSC, KLS, TWS wood

Document audit – Wood Origin Control

3rd party audit of COC

April 2001

35 COC factories Significant FSC, TWS, KLS

It can be done!
Lessons cont.

<table>
<thead>
<tr>
<th>10 years on</th>
<th>Document sets &amp; COC are only part of the solution</th>
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<tbody>
<tr>
<td>Working globally</td>
<td>Annual, 3rd party auditing is important but has some big holes</td>
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<td>GF, sawn timber, plywood, mouldings</td>
<td>• The ‘day in the sun’ phenomenon</td>
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<td>Across borders, through traders</td>
<td>• Frequency</td>
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<td>• Depth</td>
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<td>• Historical</td>
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<td>• “If a factory wants to fraud, nothing we can do”</td>
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<td></td>
<td>• Auditors knowledge e.g. legal docs, general context</td>
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<td>• Conflict of interest</td>
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Good Wood Good Business

A Wood Control System Approach

- Wood Policy
- Procurement program
- Chain of Custody COC
- Wood Origin Control WOC
- Internal audit
- 3rd party audit
- Reporting system

7 Elements
Good Wood Good Business

A Wood Control System Approach

- Project Team
- Communications Program
- Work out baseline
- Develop a Wood Policy
- Take Action
- Achieve Targets

www.tft-forests.org
How it Works in Practice

Risk assessments, 2nd or 3rd party audit
Acting for TFT Member, non-member Clients
Paid with membership levy or fee-for-service
Identifying factories, forests
Training factories, forests
Stump to finished product COC
Very frequent, on-going monitoring e.g. by shipment
Preparing the ground for the 3rd party auditors
Approving TFT logo use on product when all OK

Indonesia, Viet Nam, China
Touche pas à ma forêt !
Lessons cont.

Origin verification is KEY

Once you know origin, you can apply standards, get audited, make claims

Sorting it out will transform your business, supply chains, whole industry

Sharp supply chain management overcomes this

Legislation is levelling the playing field
Scaling Up

EC funded Timber Trade Action Plan (TTAP) project

- Verified legal product into EC; focus on UK, Belgium, NL, others
- China, Indonesia, Malaysia, Brazil, Guyana, Bolivia, Cameroon, Gabon, RoC
- EUR7 million financing, EUR2 million co-funding from companies
- 35 supply chains to be verified legal, RPPs, coherent approach across EC
- International TTF Day – 29 TTFs from around world, lesson sharing, support

The Forest Trust – TFT v2.0

- Scaling up beyond tropics – focus on China, high risk areas
- Big challenge – to move beyond solid wood products
Composite Wood Products

Wood raw material from goodness knows where; chips, saw dust, legal, illegal, imported, local, tropical, non-tropical – very complex!!

Business as usual doesn’t work in the new compliance framework

What to do?

Unfortunately there is no magical solution

So…..is this a nightmare, or an opportunity?

Our experience suggests the latter and that 1st movers gain a significant and long-term, sustained advantage

The legislation is here, your business WILL need to change, so why not lead it?
Back to 1\textsuperscript{st} Principles

**Elements**

- Wood Policy
- Procurement program
- Chain of Custody COC
- Wood Origin Control WOC
- Internal audit
- 3\textsuperscript{rd} party audit
- Reporting system

**Steps**

- Project Team
- Communications Program
- Work out baseline
- Develop a Wood Policy
- Take Action
- Achieve Targets

This WILL transform your business, your entire industry.
Trade-offs and human ingenuity

If we get it right across the whole timber trade, we might have some forests left to supply wood raw materials in the future.