



Timber



Palm Oil



Beef



Soy

# Exercises

Autumn 2017



Funded by the LIFE programme of the European Union and UK Aid from the UK government. The European Commission support for the production of this publication does not constitute endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein. This material has been funded by UK aid from the UK government; however the views expressed do not necessarily reflect the UK government's official policies.



# Session 1

## Supply chain mapping and risk identification

30 mins. 20 minutes preparation and work, 10 minutes presentations and discussion.

You are a compliance manager of a company sourcing and selling building materials.

You are looking to potentially start buying sawn wood made of two different wood species (birch and Mongilan oak) from a Russian trader (Pavel Ivanov).

You have not bought from Pavel Ivanov before.

You now need to do a due diligence evaluation of the two products.

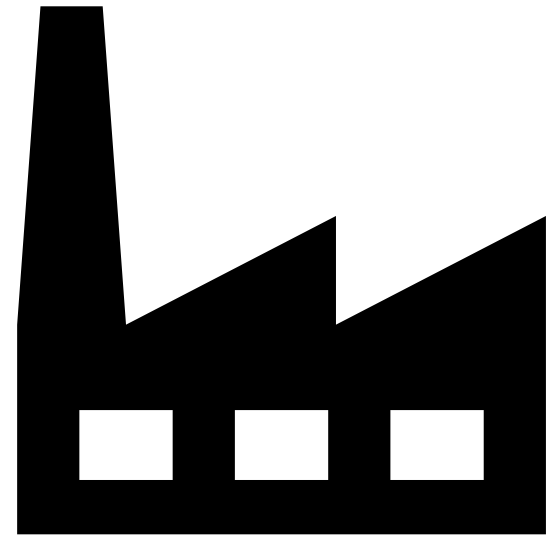
You have requested information and supporting documentation on the supply chains and country of origin for each product from your immediate supplier (Pavel Ivanov) so that you can investigate the risks at the national level in each country.

The supplier provides you with the following description:

Pavel Ivanov is a trader and is FSC chain of custody certification.

The products that he sells are produced by many different companies.

The two products you are interested in are supplied two different sawmills.





Ptiza sawmill owns the concession (the forest entity) from where they have sourced the timber.

The input material of the sawmill is birch.

Following supply chain documentation has been delivered with the shipment: Concession licence agreement, a transport document and VAT invoice.

Pavel Ivanov buys the sawn wood made from Mongolian oak from a sawmill in Krasnoyarsk in Siberia.

The sawmill knows the origin of the timber (forest level).

Documents delivered with the shipment: Signed document stating that the timber is legally harvested.

## 1. Supply Chain Mapping

Prepare a supply chain map based on the information provided by your supplier.

## 2. Risk identification

- a) Evaluate whether the level of information regarding the following is satisfactory:
  - 1. Product type
  - 2. Species
  - 3. Origin of the material
- b) Evaluate the risk of mixing material from other origins in the supply chain

**Be ready to present and discuss the results.**

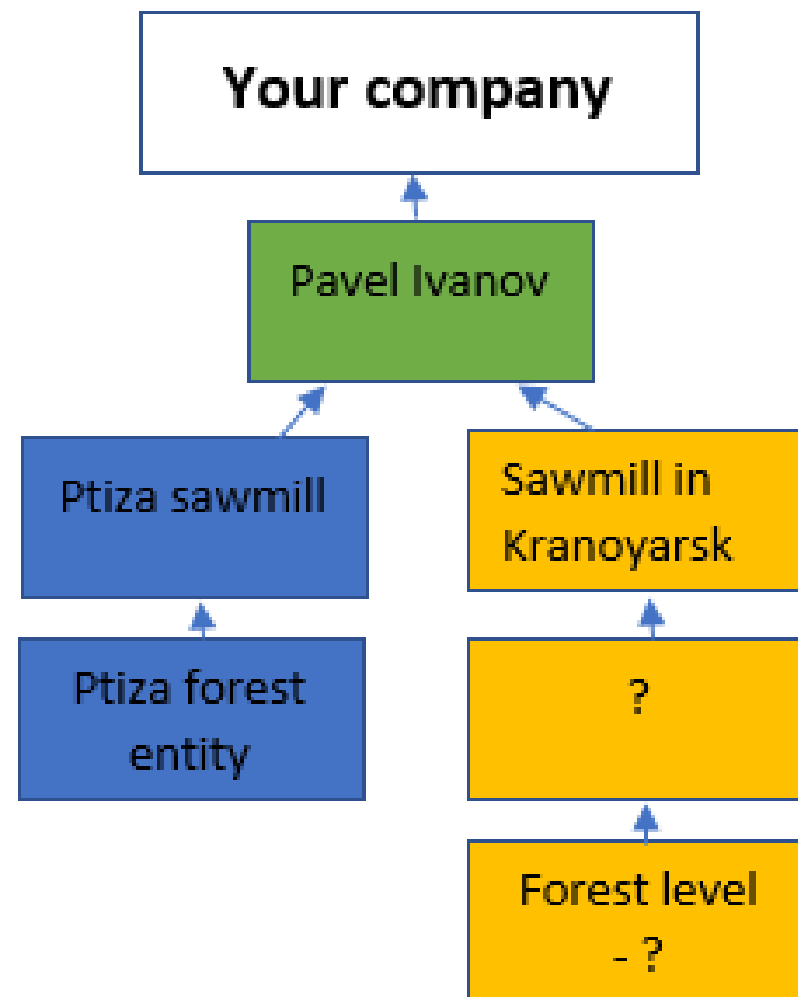


DD-01 Due Diligence Guidelines

DD-08 Risk identification Checklist (section included in the exercise – see next slide)

# DD-08 Questions 10-12

10	Supply chain complexity	10,1	Does the supply chain consist of many tiers back to the forest of origin?
		10,2	Does the supply chain span different countries before the final product is placed for commercial circulation?
11	Product complexity	11,1	Is the product made of multiple material components?
		11,2	Is the product or its components made from composite or complex materials?
12	Material identification	12,1	Could the input material be substituted by similar material inputs which have a different species or origin?
		12,2	Can supply chain entities provide clear documentation and information on the material input and species included in the product?



- Supply chain seem clear
- Not many tiers back to origin
- The material is harvested and sold from Russia
- The product is not complex, as it consists of 1 species and is not a composite product
- The species birch can be easy to identify in sawn wood – Potentially timber testing can be used
- Documentation seem clear, but uncertain whether transport documents cover the whole supply chain – this should be verified

- Unknown supply chain
- The product is not complex, as it consists of 1 species and is not a composite product
- The species oak is easy to identify in sawn wood  
Potentially timber testing can be used
- No documentation to verify origin
- Document stating legal harvesting: Unclear who has signed this. Furthermore this document cannot be used to show where timber comes from

# Session 2

## Risk specification and mitigation

60 mins. 40 minutes preparation and work, 20 minutes presentations and discussion.

## 1. Risk specification – forest level

- a) Review the country pages and national risk assessments for Russia, which can be downloaded from the NEPCon Sourcing Hub (<http://www.nepcon.org/sourcinghub>).
- b) Develop an overview of risks associated with the source country and one category of law

## 2. Risk mitigation

- a) Pick two of the risks that were specified in the risk assessment and consider how they affect your supply chain(s).
- b) Evaluate options for mitigating the specified risks and select risk mitigating actions you would choose to establish, considering effectiveness and cost efficiency.
  - a) Consider the use of documents, stakeholder consultation and onsite visits

**Be ready to present your findings.**



NEPCon Sourcing Hub (<http://www.nepcon.org/sourcinghub>)

- Country pages
- Risk assessments

DD-01 Due Diligence Guidelines

## Legal rights to harvest



- Risk that corruption is involved in the issuance of concessions licences, whereby concession licences are given to individuals with connections to the issuing authorities, and the legal process for tendering isn't followed
- Risk that concessionaires harvest volumes greater than those stated in the forest management plan
- Risk that corruption is involved in the approval the Forest Declarations and Technological Maps

## Taxes and fees



- Risk that concession fees, VAT and profit taxes are not paid
- Risk that price-dumping, where manufacturers export at a price below the price charged or below cost of production, is practiced
- Risk that companies are set up for a short period, solely for tax avoidance, before being dissolved

## Timber harvesting activities



- Risk that timber is harvested outside the official boundaries
- Risk that approved harvest volumes are exceeded
- Risk that unauthorised species are harvested
- Risk that surveys to identify and avoid protected sites and species prior to harvest are not conducted
- Risk that health and safety laws for forest workers are not complied with/enforced

## Mitigation recommendations

There are five recommended actions to mitigate the risks associated with the timber sources from Russia:

### 1. Fully map your supply chain

- Our [supply chain mapping tool](#) can help you do this.

### 2. Obtain and verify documents

- Land tenure and business documents:
  - Business registration documents
  - Management contract or other agreements with the FME
  - Concession license agreements
- Tax-related documents:
  - Receipts for payments of harvesting-related royalties, taxes, harvesting fees and other charges, and classification of species, volumes and qualities shall match the royalties and fees paid
  - Supplier shall not be listed in forest concession fee debtors list, maintained and updated by the Federal Forestry Agency. Available at: <http://www.rosleshoz.gov.ru/activity/finance/stat>
  - Receipts for VAT payments and other related sales taxes
- Harvesting documents:
  - Forest management plan, Forest Declaration, Technological Map
- Employment

### 3. Consult with stakeholders

- Neighbours, local communities and others confirm that land tenure rights are clear (in areas with land tenure conflicts)
- Confirm that registration of FMEs has been granted following legally prescribed processes.
- Confirm that legal status of the operation, or that rights for conducting the established activities are not subject to court orders or other legally established decisions to cease operations.
- Confirm that legal procedures for obtaining concession licenses have been followed
- Confirm that the forest management plan has been approved per legally prescribed process
- Financial authority confirms that valid tax registration and that all required income and profit, and VAT taxes have been paid
- Stakeholders and employees confirm that the forest management plan, Forest Declaration, and Technological Map are implemented in the forest, legally required protection equipment is provided and used by relevant people

Environmental organizations do not provide evidence of breach of laws and regulations related to protected sites and species

In partnership with the **Forest Stewardship Council**

With support from

**MINISTRY OF FOREIGN AFFAIRS OF DENMARK**  
**DANIDA** | INTERNATIONAL  
DEVELOPMENT COOPERATION



NEPCon Sourcing Hub is funded by UK Aid from the UK government , the LIFE programme of the European Union and DANIDA, Ministry of Foreign Affairs of Denmark. Donors are not responsible for any claims or views presented in this material. The European Commission support for the production of this publication does not constitute endorsement of the contents which reflect the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein. The views expressed do not necessarily reflect the UK government's or DANIDA's official policies.