

Annex 5: Risk Assessment Guide

Risk assessment is considered to be an iterative process in that risks can be identified at a generic level (i.e. using indicators of national corruption level or similar indicators), while further risk details can be specified where negligible risk cannot be identified in the first step of assessment.

Generally risks of sourcing illegal timber can be subdivided into the following:

1. Risk of legal violation in connection with the forest management and harvesting operations at the forest level related to applicable legislation
2. Risk of legal violation during trade and transport of the material throughout the supply chain from the forest of harvest to the Operator; and
3. Risk of illegal material entering through the supply chain (e.g. mixing during transport, processing or storage)

The risk assessment evaluates risks based on different categories:

Conclusive risk categories

This category contains evaluation of few general issues which will provide clear and conclusive risk status regardless of species or origin of the material. This includes material supplied as FLEGT licenced wood that will be exempt for the due diligence requirements and can thus always be considered to be of negligible risk. Timber originating from countries with active UN or EU trade sanctions including timber and/or timber products shall always be considered of non-negligible status and the only way to mitigate the risk is to stop sourcing from these countries.

Certification/verification status

Certification or verification against credible standards is considered an important factor in mitigating risks. Suppliers supplying 100% material from credibly certified sources can be considered as negligible risk. Material that is supplied as being certified under credible certification schemes can be considered negligible risk.

Species risk

Certain timber species have been more often connected with illegal logging than others. The species can therefore play a role as an indicator of risk. However it should be underlined that the species alone may not allow a conclusion about the risk status and that the risks originating from the area of harvesting should also be considered. Therefore the origin risk shall always be considered.

Origin risk

The risk that timber has been harvested or traded contrary to applicable legislations is a key risk criterion. Unfortunately it is also a criterion that is very difficult to assess in a subjective way. There are a few sources of general information available that can guide the process of determining risks of illegal activities in a country (see table below). In principle the evaluation of risks of illegal logging in a certain country shall take into consideration applicable legislation as has been defined by the EUTR as legislation in force in the country of harvest covering the following matters:

- rights to harvest timber within legally gazetted boundaries,
- payments for harvest rights and timber including duties related to timber harvesting,
- timber harvesting, including environmental and forest legislation including forest management and biodiversity conservation, where directly related to timber harvesting,

- third parties' legal rights concerning use and tenure that are affected by timber harvesting, and
- trade and customs, in so far as the forest sector is concerned.

This is probably one of the most challenging areas for risk assessment, since it requires knowledge on the risks for illegal activities on national level. As a simple measure, it is possible to start with for example just the risk evaluation based on Corruption Perception Index (see 9 in the table below), and focus further on countries where the index is below 5 (scale of from 1 to 10 with 10 being the least corrupt). However it has to be underlined that risk of illegal activities may also occur in countries with a CPI index above 5 and that this scale therefore does not provide a definite measure of risk: only an indicator.

For countries where there is general risk for illegal activities, it can be considered to mitigate the risk by requesting certified supplies. In case this is not feasible, it is recommended to further evaluate the risks related to legal violations, in order to focus the auditing efforts towards the areas where there is non-negligible risks. This can be done through the following process:

- 1. Define applicable legislation in the country.** A full list of all legislation applicable to forest management and timber trade in the region is developed.
- 2. Identify sources of information for legal compliance.** For each legal requirement identified in 1, information sources are identified from where it is possible to obtain information about the level of compliance. The sources can be specific organizations, public bodies, reports or even individuals.
- 3. Risk assessment – evaluate the level of legal compliance.** Using information from the sources identified in 2, it is evaluated for each legal requirement, how wide-scale are legal violations in relation to this requirement.

It is recognized that this level of risk assessment will be beyond the scope of most organisations, and in lack of better information it is recommended to use existing sources of information and more generic indicators of risk, such as for example the Corruption Perception Index (see table below).

Supply chain risks

Risks originating in the supply chain include the risk that the material received does not correspond to the information accompanying the shipments. This may include that the material has been mixed or substituted with material with unknown or illegal origin, or that trade and custom rules are being violated in the supply chain.

Also illegal actions in the processing and trade may constitute risks in relation to the material/products.

A. Risk Identification Checklist

The following table can be used to guide the process of assessing risks for each product or material category. To start an evaluation, simply start at risk category number 1 and evaluate the risks based on each of the Risk Assessment Questions. The guidance text should be used to guide the decision making process and also provide supporting links to relevant information.

The Assessment Conclusion Field shall be used to make a decision on the risk at each risk category and provide the user with the next step to take.

Where non-negligible risk is identified in the conclusion key, the user can view recommended risk mitigation measures in the right most column (see the guide to risk mitigation for further detail). The Risk Assessment table follows a simple string of questions that will lead the user through the risk assessment criteria as outlined by the EUTR.

NOTE: Risk assessment is a process that requires the user to make an informed decision about risks. The table cannot provide a decision for all cases and the user is advised to use best judgment and apply a precautionary approach when assessing risks.

Risk Type	Risk #	Risk Assessment Question	Guidance	Assessment conclusion key	Recommended risk mitigation
CONCLUSIVE RISKS CATEGORIES	1	Is the product in question covered by a valid FLEGT license?	See the EFI portal for a current status of countries with VPA and FLEGT licence agreements: http://www.euflegt.efi.int/portal/home/vpa_countries/ . Before material with a FLEGT license should be placed on the market it should be assured that the license is correct and that the product has been imported to the EU according to the licence rules.	If YES = the product is exempt NO = Go to 2	NA
	2	There are NO sanctions imposed by the UN Security Council or the Council of the European Union on timber imports or exports?	Under Chapter VII of the Charter, the UN Security Council can take enforcement measures to maintain or restore international peace and security. Such measures range from economic and/or other sanctions not involving the use of armed force to international military action. A list of all UN sanctions can be found here: http://www.un.org/sc/committees/list_compend.shtml The European External Action Services website contains relevant information about EU sanctions: http://eeas.europa.eu/cfsp/sanctions/index_en.htm	YES= Go to 3 NO = the product cannot be imported to EU.	SREP (switch to sourcing from a different country)

	3	Is the species constituting the product covered by CITES?	<p>The US Fish and Wildlife services maintain a list of the tree species listed by CITES: http://www.fws.gov/international/DMA_DSA/CITES/timber/CITES_tree_species.html</p> <p>CITES regulates international trade in plant and animal species by including species on one of three Appendices: Appendix I - species cannot be traded internationally for primarily commercial purposes. (Appendix II - species can be traded internationally for commercial purposes, but within strict regulations, requiring determinations of sustainability and legality. Appendix III - a species included at the request of a country which then needs the cooperation of other countries to help prevent illegal exploitation.</p> <p>For detailed information about CITES: http://www.cites.org/eng/app/appendices.php</p>	<p>YES= go to 4 NO = Go to 5</p>	NA
	4	Does the material have the correct CITES license and documents?	<p>For any CITES species, it is required to have a CITES export and customs license. This shall accompany the material when delivered.</p> <p>Further information about the EU implementation of the CITES: http://ec.europa.eu/environment/cites/legislation_en.htm</p>	<p>YES = Negligible risk NO = Non-negligible risk</p>	SREP or ensure that documentation is in place
CERTIFICATION STATUS	5	Is the supplier and product covered by an active credible 3rd party certification scheme which meets all applicable requirements of the EUTR?	<p>Credible schemes are those verification or certification schemes that fulfil the minimum requirements as outlined in Article 4 in EU Implementing regulation 607/12 (*see below for details).</p> <p>ETTF has carried out an analysis of existing voluntary certification and legality verification schemes. Please refer to this evaluation. LINK</p>	<p>YES = Go to 6 NO = Go to 8</p>	
	6	Is the product received accompanied with the required claim information that can confirm the certification status of the material/product?	<p>In order for certified material to be received as such it needs to be accompanied by appropriate claims on the invoice, bill of lading or similar transport related documents on order to enable identification of the certification or verification status.</p>	<p>If YES = Go to 7 NO = Non-negligible risk – Go to 8</p>	SCM/SCA

	7	Is the CoC system unbroken and can the active certification status of the supplier be confirmed?	<p>When products are received from a certified supplier the products shall be included in the scope of the certification and the certification status of the supplier shall be active.</p> <p>For information check the relevant certification systems website for information about the status of certificates</p> <p>In order to verify if your supplier is covered by a valid certification or verification certificate you can refer to the following websites:</p> <p>CERTIFICATION SYSTEMS:</p> <ul style="list-style-type: none"> – FSC Certification: www.fsc-info.org – PEFC Certification: http://register.pefc.cz/search1.asp <p>LEGALITY VERIFICATION SYSTEMS:</p> <ul style="list-style-type: none"> – Rainforest Alliance VLC: http://www.rainforest-alliance.org/forestry/verification/transparency/verification-clients – SCS LegalHarvest Verification: http://www.scs-certified.com/nrc/legal_harvest_verified_clients.php – CertiSource Verified Legal: http://www.certisource.co.uk 	<p>If Yes = Negligible risk</p> <p>If No = go to 8</p>	<p>If the certification status cannot be confirmed and the material shall be handled as non-certified. Mitigation actions are recommended to include investigating the certification status of the material or implement verification of the supply chain in case the certification status cannot be confirmed.</p>
SPECIES RISK	8	Is the species of the material/product confirmed to be free of risks of illegal logging?	<p>ETTF has developed a list of species that has been reported to carry a higher risk of association with illegal harvesting than others. It must be stressed that this list is NOT DEFINITIVE and should ONLY BE REGARDED AS A GUIDE to identify possible risks.</p> <p>The list therefore should be used as a reference and species on the list considered with extra care.</p> <p>If a certain species is not listed on the Risk Species List it <u>DOES NOT MEAN THAT IS IT NECESSARILY FREE OF RISK.</u></p> <p>All material, whether the species are on the list or not should be evaluated for risks.</p>	<p>No definitive risk conclusion can be given based on the species. Go to 9</p>	<p>FMUA; CERT/VER; SREP (change species)</p>

<p style="text-align: center;">ORIGIN RISKS</p>	<p style="text-align: center;">9</p>	<p>Can the harvest practices in the country of harvest and/or sub-national region where the timber was harvested, be confirmed to be free of significant risk of illegal activities.</p>	<p>The risk of illegal logging is best evaluated based on the exact origin of the timber.</p> <p>In order to evaluate this risk, information needs to be collected about the country of origin to assess the current state of illegal activities in the forest sector. Unfortunately there is no currently active system that contains a detailed forest legality risk assessment on a global scale. However there are a number of sources of information that can support a risk assessment.</p> <p>The Global Forestry Registry is a free source of information on the risk of sourcing controversial timber throughout the world. The registry covers more than 150 countries worldwide, however for many countries, the information is rather limited. Countries listed as "unspecified risk" in the Global Forest Registry for the category 1 (Legality) are countries where there is higher perception of risk for illegal logging.</p> <p>www.globalforestryregistry.org</p> <p>The Corruption Perception Index published by Transparency International provides a score representing the perceived corruption level in each country and is readily available for all countries. The indicator is useful at a broad level as there is usually a high correlation between the level of corruption and the risk of illegal logging. It should be underlined, that in countries where the risk of illegal logging varies between sub-national regions, the CPI index may be less useful and more detailed information may be necessary. http://www.transparency.org</p> <p>Global Witness has published reports on a limited number of countries related to illegal activities in the forest sector:</p> <p>http://www.foresttransparency.info/</p> <p>The World Bank "Worldwide Governance Indicators" provides indicators of governance efficiency globally and can be used as indicators of risks too, similarly to the CPI.</p> <p>http://info.worldbank.org/governance/wgi/index.asp</p>	<p>If YES = Go to 10</p> <p>If NO = Non-negligible risk</p>	<p>FMUDOC; FMUA; CERT/VER; SREP</p>
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SUPPLY CHAIN RISKS	10	Can you access information about the supply chain to a level that allows you to confirm the origin of the material and establish the level of control?	Supply chain information from countries with a negligible origin risk it is necessary to identify the supply chain to a level where it is possible to confirm the origin of the material.	YES = Go to 11 NO = non-negligible risk	SCM
	11	Can it be confirmed that there is no risk or possibility that material is mixed or substituted with non-negligible risk material during transformation and transport?	In order to answer Yes to this question, you need to have a clear and justified explanation.	YES = Go to 12 NO = non-negligible risk	SCM; SCA; CERT/VER
	12	Is classification of species, quantities, and qualities carried out in a way according to prevailing regulations?	In order to evaluate this, the following issues has to be considered: <ul style="list-style-type: none"> ✓ does the description of the product type, quality and quantity correspond on all related documentation received from the supplier? ✓ are there any restrictions or specific rules regarding processing and exporting of the species, products or materials in the countries in which the products has been handled in?? ✓ can the species of the product be confirmed and identified as the same species on all related documentation? 	YES = Negligible risk NO = non-negligible risk	SCM; SCA; CERT/VER

Acronyms:

- SCM: Supply chain mapping, desk based (requesting information)
SCA: Supply Chain audit onsite (focusing on the chain of custody)
FMUDOC: Additional information about legal activities in the FMU
FMUA: FMU audit
CERT/VER: Requesting certified/verified material
SREP: Supplier replacement

B. Risk Specification Table

ETTF has adopted the definition of legality as set out in the EU Timber Regulation. The following table defines the scope of “legality”. The table should also be used in cases where non-negligible risk has been identified and risks needs to be specified at a more detailed level..

1. Legal rights to harvest	
1.1 Land tenure and management rights	Legislation covering land tenure rights including customary rights as well as management rights including use of legal methods to obtain tenure rights and management rights. The point also covers legal business registration and tax registration including relevant legal required licenses.
1.2 Concession license	Legislation regulating procedures for issuing of forest concession licenses including use of legal methods to obtain concession license. Especially bribery, corruption and nepotism are well-known issues in connection with concession licenses.
1.3 Management and harvesting planning	Any legal requirements for management planning, including conducting forest inventories, having a forest management plan and related planning and monitoring, as well of approval of these by competent authorities.
1.4 Harvesting permits	Legislation regulating issuing of harvesting permits, licenses or other legal document required for specific harvesting operations. The point includes the use of legal methods to obtain the permit. Corruption is a well-known issue in connection with issuing of harvesting permits.
2 Taxes and fees	
2.1 Payment of royalties and harvesting fees	Legislation covering payment of all legally required forest harvesting specific fees such as royalties, stumpage fees and other volume based fees. The point also includes payments of the fees based on correct classification of quantities, qualities and species. Incorrect classification of forest products is a well-known issue often combined with bribery to officials in charge of controlling the classification.
2.2 Value added taxes and other sales taxes	Legislation covering different types of sales taxes, which apply to the material being sold, including selling material as growing forest (standing stock sales).
2.3 Income and profit taxes	Legislation covering income and profit taxes related to the profit derived from sale of forest products and harvesting activities. This category is also related to income from sale of timber and does not include other taxes generally applicable for companies or related to salary payments.
3. Timber Harvesting	
3.1 Timber harvesting regulations	Any legal requirements for harvesting techniques and technology including selective cutting, shelter wood regenerations, clear fellings, transport of timber from felling site, seasonal limitations etc. Typically this includes regulations about the size of felling areas, minimum age and/or diameter for felling activities, elements that shall be preserved during felling etc. Establishment of skidding or hauling trails, road construction, drainage systems, bridges etc shall also be considered as well as planning and monitoring of harvesting activities. Any legally binding codes for harvesting practices shall be considered under this point.
3.2 Protected sites and species	Covers legislation related to protected areas as well as protected, rare or endangered species, including their habitats and potential habitats.
3.3 Environmental requirements	Covers legislation related to environmental impact assessment in connection with harvesting; acceptable level for soil damage; establishment of buffer zones e.g. along water courses, open areas, breeding sites; maintenance of retention trees on felling site; sessional limitation of harvesting time; environmental requirements to forest machineries.
3.4 Health and safety	Legally required personal protection equipment for persons involved in harvesting activities; use of safe felling and transport practice; establishment of protection zones around harvesting sites; safety requirements to machinery used. Legally required safety requirements in relation to chemical usage. The health and safety requirements that shall be considered under this category are related to operations in the forest (not office work, or other activities less related to actual forest operations).
3.5 Legal employment	Legal requirements for employment of personnel involved in harvesting activities including requirement for contracts and working permits; requirements for obligatory insurances; requirements for competence certificates and other training requirements; payment of social and income taxes withhold by employer. Furthermore, the points cover observance of minimum working age and minimum age for personal involved in hazardous work; legislation against forced and compulsory labour; discrimination and freedom of association.

4. Third parties' rights	
4.1 Customary rights	Legislation covering customary rights relevant to forest harvesting activities including requirements covering sharing of benefits and indigenous rights.
4.2 Free Prior and Informed Consent	Legislation covering "free prior and informed consent" in connection with transfer of forest management rights and customary rights to the organisation in charge of the harvesting operation.
4.3 Indigenous peoples rights	Legislation that regulates the rights of indigenous people as far as its related to forestry activities. Possible aspects to consider are land tenure, right to use certain forest related resources or practice traditional activities, which may involve forest lands.
5 Trade and transport	
NOTE: This section covers requirements for both forest management operations as well as processing and trade entities.	
5.1 Classification of species, quantities, qualities	Legislation regulating how harvested material is classified in terms of species, volumes and qualities in connection with trade and transport. Incorrect classification of harvested material is a well-known method to reduce/avoid payment of legality prescribed taxes and fees.
5.2 Trade and transport	All required trading permits shall exist as well as legally required transport document which accompany transport of wood from forest operation.
5.2 Offshore trading and transfer pricing.	Legislation regulating offshore trading. Offshore trading with related companies placed in tax heavens combined with artificial transfer prices is a well-known way to avoid payment of legally prescribed taxes and fees to the country of harvest and considered as an important generator of funds that can be used for payment of bribery and black money to the forest operation and personal involved in the harvesting operation. Many countries have established legislation covering transfer pricing and offshore trading. It should be noted that only transfer pricing and offshore trading as far as it is legally prohibited in the country, can be included here.
5.4 Custom regulations	Custom legislation covering areas such as export/import licenses, product classification (codes, quantities, qualities and species), CITES permits (the Convention on International Trade in Endangered Species of Wild Fauna and Flora, also known as the Washington Convention).