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# ETTF System for Due Diligence

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## Acronyms

CERT/VER:	Requesting certified/verified material
DD:	Due Diligence
ETTF:	European Timber Trade Federation
EUTR:	EU Timber Regulation
FLEGT:	Forest Law, Enforcement, Governance and Trade program
FMU:	Forest Management Unit
FMUA:	FMU audit
FMUDOC:	Additional documentation for evidence of legal activities in the FMU
RPP:	Responsible Purchasing Policy
SCA:	Supply Chain audit onsite (focusing on the chain of custody)
SCM:	Supply chain mapping, desk based (requesting information)
SREP:	Supplier replacement
TTF:	Timber Trade Federation

## Contents

Introduction .....	3
Due Diligence Process .....	3
Step 1: Meeting general requirements .....	4
Step 1.1.: Sign the policy commitment (Annex 1).....	4
Step 1.2: Read and sign the communications protocol (Annex 2) .....	4
Step 1.3: Establish status as Operator .....	4
Step 1.4: Evaluate products for inclusion in the EUTR scope .....	4
Step 1.5: OPTIONAL - Adopt the due diligence manual .....	4
Step 2: Access and Manage Supply Chain Information.....	5
Step 2.1: Collect Supplier Information (ETTF-04).....	5
Step 2.2: Record supplier information (ETTF-03).....	5
Step 3: Risk Assessment .....	5
Step 3.1 Evaluate supplier information.....	5
Step 3.2: Sort supplier information for certification status .....	5
Step 3.3: Assess risks (Annex 5) .....	5
Step 3.4: Record the risk assessment conclusion .....	6
Step 4: Risk Mitigation .....	6
Step 4.1: Identify risk mitigation actions.....	6
Step 4.2: Plan risk mitigation actions .....	8
Step 4.3: Implement risk mitigation actions .....	8
Annex 1: Responsible Purchasing Policy Template.....	9
Annex 2: Communications Protocol for Members .....	10
Annex 3: Supplier Consent Letter Template .....	12
Annex 4: Step Wise Process flowchart.....	14
Annex 5: Risk Assessment Guide .....	15
Conclusive risk categories .....	15
Certification/verification status .....	15
Species risk.....	15
Origin risk .....	15
Supply chain risks.....	16
Risk Assessment Guideline.....	17

## Introduction

The current document and due diligence system tools has been developed as a cooperation between the European Timber trade Federation and NEPCon<sup>1</sup> with financial support from DFID.

The guide follows the steps that should be taken in the due diligence process and a description of proposed actions and the tools and templates available to carry out each step.

The objective of developing a harmonized framework is to develop clear and unambiguous system that can be applied in all situations by ETTF and TTF member companies.

## Due Diligence Process

These document contains both background information, overview of the available tools and templates as well as a number of annexes that contain the actual templates used as the due diligence system.

See Annex 4 for an overview of the due diligence stepwise process.

The user of the system need to use the tools adapt and implement the templates found in the annexes in their own operations. Further guicance is given in the description of the specific template – see below.

*Table 1: overview of ETTF due diligence system documents*

Name	Description
ETTF-02: Due Diligence System	The current guideline for implementing the ETTF stepwise approach to due diligence.
Annex 1: Responsible Purchasing policy Template	A template policy statement that members shall sign in order to be admitted to the TTF due diligence program
Annex 2: Communications Protocol	Protocol outlines the rules for communication by members using the ETTF due diligence system. This shall be signed by the members as well.
Annex 3: Supplier consent letter template	Letter template outlining a possible format for informing suppliers about the EUTR and asking for information about supply of timber and timber products. The template shall only be used where necessary and as described.
Annex 4: Stepwise Process Flowchart	Overview of the ETTF stepwise approach to due diligence
Annex 5: Risk Assessment Guide	Guidance to the risk assessment process.
Annex 6: Species List	List of species with reported risk of illegal logging
ETTF-03: Supplier Management Form	Excel workbook template to be used to collect and manage supplier information.
ETTF-04: Supplier Information Form	Excel workbook template used to collect relevant additional information from suppliers of uncertified material or material with lacking information.
ETTF-05: Due Diligence Manual Template	A template manual for due diligence. The use of the manual is OPTIONAL and can be adapted and revised by companies as needed. The manual can be used by companies that wish to develop and implement their own due diligence procedures and

<sup>1</sup> [www.nepcon.net](http://www.nepcon.net)

systems.
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## **Step 1: Meeting general requirements**

The EUTR requires that Operators exercise due diligence and ensure this through the development and implementation of a system and procedures. The system includes the following templates that should be used to complete Step 1 of the due diligence process:

### ***Step 1.1: Sign the policy commitment (Annex 1)***

The policy commitment is a key document to sign, as this forms the basis for the Policy decision to implement due diligence.

### ***Step 1.2: Read and sign the communications protocol (Annex 2)***

The communications protocol manages the communication about your implementation of the ETR due diligence system. It is important that these requirements are met, as public communication forms the perception of our work in the public.

### ***Step 1.3: Establish status as Operator***

The EUTR requirements for due diligence are applicable to companies that for the first time place timber or timber products on the EU market.

Therefore you shall only be obliged to meet the EUTR requirements if you meet the definition of “placing on the market”<sup>2</sup>

If your company does not place products for the first time on the EU market you shall not be obliged to meet the due diligence system requirements.

### ***Step 1.4: Evaluate products for inclusion in the EUTR scope***

There is defined range of products that are covered under the EU Timber Regulation, however most of the wood based products are included. Before embarking on all due diligence steps; ensure that the products you place on the market are covered under the EUTR. The due diligence system can of course be applied on all wood based material, but at minimum is obligatory for the material included in the scope.

To keep up to date on all products included in the scope, please use this link to the EC website: [http://ec.europa.eu/environment/forests/timber\\_regulation.htm#products](http://ec.europa.eu/environment/forests/timber_regulation.htm#products)

If your product is included on the list it is included under the scope of the regulation.

### ***Step 1.5: OPTIONAL - Adopt the due diligence manual***

The due diligence manual template has been designed to outline the basic requirements of the due diligence system of any company wishing to implement a due diligence system that meets the EUTR. The template can be filled in with relevant company specific information and adopted to the company’s other procedures as needed. The template can be adapted by the relevant company but core elements of the ETR due diligence system shall remain consistent.

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<sup>2</sup> placing on the market’ means the supply by any means, irrespective of the selling technique used, of timber or timber products for the first time on the internal market for distribution or use in the course of a commercial activity, whether in return for payment or free of charge.

## **Step 2: Access and Manage Supply Chain Information**

One of the basic requirements of the due diligence system is that organisations can provide access to information about their supply of timber and timber products. In order for the due diligence process to be efficient, information should be made accessible at minimum to a level that can assure that the risk assessment can be carried out with the needed details.

In this regard it is important to underline that there will be need for information at different levels of detail depending on the origin and level of risk mitigation for the material. Access to information shall be obtained in a way that enables easy and immediate access to relevant information when requested.

### **Step 2.1: Record supplier information (ETTF-03)**

Record information about suppliers by using the Supplier Management Form (Document number ETTF-03). For suppliers or supply chains, where there are gaps in the information, you can use the next step to gain additional information.

### **Step 2.2: Collect Supplier Information (ETTF-04)**

Where information is insufficient to enable risk assessment, further information about suppliers and product origin needs to be collected. In this case use the letter template for *Supplier Consent* (Annex 03) in combination with the *Supplier Information Form* (Document number ETTF-04) that is found in Excel format and send to all suppliers where information is insufficient to enable risk assessment.

Once additional information has been received, you should update information under step 2.2. to have a complete supplier overview.

## **Step 3: Risk Assessment**

The objective of the risk assessment is to identify the products or supply chains where there is risk for receiving illegal material and where thus, the risk can not be concluded to be negligible. This provides the information to focus risk mitigation activities for the areas with higher risks.

### **Step 3.1 Evaluate supplier information**

Review the information collected from suppliers. If information is still lacking about a product this shall be considered a risk which needs to be mitigated before further risk assessment can be carried out for that product.

### **Step 3.2: Sort supplier information for certification status**

Sort the supplier's products for their certification status; this will allow you to focus on those products/suppliers that are not certified. Material that is certified against a credible standard and provides access to the required information can be considered as negligible risk. ETTF regularly conducts assessments of current voluntary certification systems and their ability to meet the EUTR requirements for documenting legality go to [www.ettf.info](http://www.ettf.info)

The *Risk Assessment Guide* in Annex 5 provides a guidance to evaluate the status of certified material.

### **Step 3.3: Assess risks (Annex 5)**

For all products where risks cannot be considered to be mitigated by certification, further risk evaluation shall be conducted. The *Risk Assessment Guide and Checklist* in Annex 5 can guide the process.

The risk assessment process can be carried out in two steps:

1. **Identify risks:** using the risk assessment checklist in Annex 5a it is possible to identify where risks shall be considered negligible or not.
2. **Specify risks:** when non-negligible risks are identified, further specification of the type and category of risk. A table with specific list of applicable legislation to evaluate risks against is found in Annex 5b

### Step 3.4: Record the risk assessment conclusion

In the Excel sheet *Supplier Management Form* (document code ETTF-03) the risk assessment conclusion shall be entered for each product/material.

## Step 4: Risk Mitigation

Any products or supply chains that have been identified to contain specified risk should undergo risk mitigating actions.

### Step 4.1: Identify risk mitigation actions

Selecting the actions to take when risks has been identified is a key step in the due diligence process. For different types of risk the most appropriate types of mitigating actions are different.

The table below compares the recommended types of risk mitigation.

Table 2: Risk mitigation types

Risk Type	Types of risk	Possible risk mitigation measures to be taken*
ORIGIN SPECIES	Illegal activities <b>in the FMU</b>	FMUDOC FMUA SREP CERT/VER
ORIGIN SUPPLY CHAIN	Risk of illegal activities <b>in the supply chain</b> (customs violations, mixing of products)	SCM SCA SREP CERT/VER
SUPPLY CHAIN	Origin or supply chain <b>information received is wrong or incomplete</b>	SCM SCA SREP CERT/VER

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 SCM: Supply chain mapping, desk based (requesting information)  
 SREP: Supplier replacement

The type of mitigating action chosen should always be the one that can be confirmed to mitigate the identified risks.

**ETTF strongly advises members to apply the mitigating action that provides the strongest possible assurance of legality.**

The below table contains an overview of the different possible mitigating actions and their relative strength.

Table 3: Risk mitigation actions and their relative strengths

Mitigation option	Description	Relative strength*
Supply Chain audit onsite (focusing on the chain of custody)	<p>Onsite verification of suppliers can add to the credibility of information received from suppliers, as it will allow first hand witnessing of the suppliers ability to provide relevant and current information and trace products (CoC) through the processing.</p> <p>Documents reviewed may include:</p> <ul style="list-style-type: none"> <li>✓ CoC system documents and volume summaries</li> <li>✓ Sales documents and custom declarations.</li> <li>✓ Transport and removal permits</li> <li>✓ Import and exports permits</li> </ul>	<p>STRONG</p> <p>Verifying supplier's onsite is considered a strong mitigating action for risks originating from the supply chain.</p>
<p>FMU audit</p> <p>Legal compliance in the FMU may be checked via desk based audit, or onsite audit or a combination of both. The most appropriate way also depends on the types of legality risks and violations that are most common in the country.</p>	<p><b>Onsite FMU audit</b></p> <p>On-site auditing of FMUs involves evaluating the FMU compliance to applicable legislation (See annex 5) in areas where risk has been identified. This process can involve document control onsite, stakeholder consultation and field verification, depending on the risk identified.</p>	<p>STRONG</p> <p>Onsite auditing and verification is considered the strongest mitigating action for risks identified at the forest level.</p>
	<p><b>Document based FMU audit</b></p> <p>Collecting additional information about the legality of the activities in the forest management unit from which timber is sourced from, may contribute to evaluating the legal status of the material. The possibility to implement this measure is depending on the ability to contact and communicate with the FMU (directly or through suppliers). Also communication with stakeholders (public bodies or other stakeholders) may be done remotely in some cases, via desk based audit. The decision to choose desk based audit, should be related to the consideration about the types of legal violations that are common within the country and what is the most effective way to check those.</p> <p>Often, information can be collected remotely for example about:</p> <ul style="list-style-type: none"> <li>✓ Concession licence and harvest permit</li> <li>✓ Forest management planning documents</li> <li>✓ Removal passes and transport documents</li> <li>✓ Royalty and tax receipts</li> <li>✓ Land tenure rights and proper legal registration of the FMU</li> </ul>	<p>WEAK</p> <p>Collecting information about legal compliance from stakeholders or directly from the forest management unit may enable mitigation of certain risks that are related to documents. This may also be the best way to check compliance regarding some legal aspects. In general however a desk based FMU audit is considered weaker than onsite audit. Also it is a prerequisite here that the documentation can be linked to the actual material in question.</p>
Requesting certified/verified material	Where the option of implementing onsite audits for risk mitigating is not feasible or possible, the possibility of requesting the products to be certified under credible certification or verification status should be explored.	STRONG
Supplier replacement	If the species or product type is not available from a supplier that can be identified to have negligible risk and the material cannot be sourced from an already certified/verified source; replacing the supplier with an alternative should be considered. New suppliers should undergo risk assessment before purchasing and it should be confirmed that the risk for the specific product can be confirmed to be negligible.	STRONG
Supply chain mapping, desk based (requesting additional information)	<p>Mapping supply chains involves requesting information from suppliers about their sources of timber, including sub-suppliers. Information can be collected using a simple form to gain an overview of the full supply chain and the ability of supply chain entities to manage and control material flow.</p> <p>Documents collected may include:</p> <ul style="list-style-type: none"> <li>✓ Sales documents and custom declarations.</li> <li>✓ Transport and removal permits</li> <li>✓ Import and exports permits</li> </ul>	<p>WEAK</p> <p>Collecting additional information from suppliers is considered to be a weak measure of risk mitigation especially if there is no established connection between the material and the documents.</p>

*\*the strength of verification depends on the competence of the persons involved in the audit.*

**Step 4.2: Plan risk mitigation actions**

In order to keep track of risks and their current mitigation status, it is recommended to record any mitigating actions. This can be done in Excel sheet “*Supplier Management Form*” (document ETTF-03).

**Step 4.3: Implement risk mitigation actions**

ETTF has identified a series of potential risk mitigating actions that can be applied depending on the type of risk identified and depending on the level of assurance needed. See Step 4.1 and Table 3 above for the different types of risk mitigation.