How to use the NEPCon Sourcing Hub in a due diligence process
Autumn 2017

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• Risk Assessments
• Tools for establishing a due diligence system
• Country specific tools on the sourcing hub
• Other guides
Launched August 2017... v1.0

www.nepcon.org/sourcinghub
Everything you need for due diligence in one place

1. SELECT commodity
2. ACCESS an overview map of sourcing risks + SELECT country for details
3. VIEW country detailed risk data (e.g. risks related to each type of forest production...)
4. EXPLORE a suite of country guidance and due diligence tools to mitigate the risks

NEPCon
100+ free timber legality tools

Country specific guidance

- Full **Timber Legality Risk Assessment** for all 62 countries
- An overview of the relevant laws in a country from the **List Applicable Legislation**
- **Risk Mitigation guide** to help identify the risks in the supply chain and what to do about them for a supply country
- **Document Guide** to help determine exactly what type of documents to request from the suppliers, what they should look like and how to verify their authenticity

Due Diligence tools

- Supplier Letters
- **Due Diligence Guidelines**
- Supplier Managing Form
- Risk Checklists
- Policy template
- Supplier Information Form
- etc.
Risk assessments...
Risk assessments – development process

DEVELOP the risk assessment framework for the commodity, e.g. defining (sub)catergories

CONDUCT risk assessments + CONCLUDE the risk for each of the sub-categories

CALCULATE the score for each country + COLOUR CODE in the map

Comprehensive...
<table>
<thead>
<tr>
<th>Legality category</th>
<th>Legal rights to harvest</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Land tenure and management rights</td>
</tr>
<tr>
<td></td>
<td>• Concession licenses</td>
</tr>
<tr>
<td></td>
<td>• Management and harvesting planning</td>
</tr>
<tr>
<td></td>
<td>• Harvesting permits</td>
</tr>
<tr>
<td>Taxes &amp; fees</td>
<td>• Payment of royalties and harvesting fees</td>
</tr>
<tr>
<td></td>
<td>• Value added taxes and other sales taxes</td>
</tr>
<tr>
<td></td>
<td>• Income and profit taxes</td>
</tr>
<tr>
<td>Timber harvesting</td>
<td>• Timber harvesting regulations</td>
</tr>
<tr>
<td></td>
<td>• Protected sites and species</td>
</tr>
<tr>
<td></td>
<td>• Environmental requirements</td>
</tr>
<tr>
<td></td>
<td>• Health and safety</td>
</tr>
<tr>
<td></td>
<td>• Legal employment</td>
</tr>
<tr>
<td>Third parties' rights</td>
<td>• Customary rights</td>
</tr>
<tr>
<td></td>
<td>• Free, Prior and Informed Consent</td>
</tr>
<tr>
<td></td>
<td>• Indigenous peoples rights</td>
</tr>
<tr>
<td>Trade &amp; transport</td>
<td>• Classification of species, quantities, qualities</td>
</tr>
<tr>
<td></td>
<td>• Trade and transport</td>
</tr>
<tr>
<td></td>
<td>• Offshore trading and transfer pricing</td>
</tr>
<tr>
<td></td>
<td>• Custom regulations</td>
</tr>
<tr>
<td></td>
<td>• CITES</td>
</tr>
</tbody>
</table>

1. What does the law require?  
2. Who is the government authority responsible for that law/s?  
3. What are legal documents required?  
4. What are the risks that the law is not complied with?  
5. What risk mitigation actions can be taken to reduce the risk?  
6. Sources of information
Risk assessments – development process

DEVELOP
the risk assessment framework for the commodity, e.g. defining (sub)catergories

CONDUCT
risk assessments +
CONCLUDE
the risk for each of the sub-categories

CALCULATE
the score for each country +
COLOUR CODE
in the map

Comprehensive…
Data sources for risk assessments

- Field experience and reports: ours and others
- Public summaries of certification audits
- Stakeholder consultation
- Expert input
- Justice and tribunal records
- Government reports on compliance
- National statistical reports

Sources:
- Transparency International’s Corruption Perception Index
- Chatham House – Illegal Logging
- INTERPOL
- World Bank WGI
- EU FLEGT Process
- Forest Legality Alliance
- ELDIS regional country profiles

Multiple sources
How do we determine low or specified risk?

**Considered low risk**

Problems that are:
- Temporary
- Unusual or non-systematic
- Limited in their impact
- Effectively controlled by monitoring and enforcement by efficient and effective government agencies

**Considered specified risk**

Problems that:
- Affects a wide area and/or causes significant damage and/or continues over a long period of time.
- Indicates the absence or break down of enforcement of the legal system.
- Is not corrected or adequately responded to when identified.
- Has a significant negative impact on society, the production of forest products and other services, the forest ecosystem and the people directly and indirectly affected by forest operations.
A Due Diligence System
1. Quality management
1. Quality management

The Sourcing Hub contains extensive information about how to set up your due diligence system (DDS).

The NEPCon DDS includes several **templates** that may be used to ensure that systems and procedures are developed and implemented effectively.

You can download all the **tools** and **templates** you need to set up a due diligence system in your business on the Sourcing Hub.

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**What is due diligence?**

'Due diligence' means taking reasonable care to avoid a negative outcome. In the case of the commodities we look at here:

For **timber**, we mean minimising the risk that you are placing timber on the market that was harvested, transported or traded illegally in its country of harvest. We have adopted this definition because this is what the EU Timber Regulation requires companies that place timber on the market in the EU to do.
1. Quality management

• Download the full NEPCon Due Diligence system on the Sourcing Hub

1. Quality management
2. Information gathering
Inform suppliers of DD requirements & request supply chain info (DD-06)
2. Information gathering

- For informing suppliers of information needs

- For requesting information about supply chains

- Consent form to secure access to evidence, audits & testing materials
2. Information gathering

Inform suppliers of DD requirements & request supply chain info (DD-06)

Record supply chain info (DD-04)
2. Information gathering

- Excel master document
- For systematic recording of all suppliers & supply chain information
- Helps identify gaps in information
- Document risk conclusions

Supplier Management form (DD-04)
2. Information gathering

Inform suppliers of DD requirements & request supply chain info (DD-06)

Record supply chain info (DD-04)

Analyse info and identify gaps

Request any missing info from specific supplier (DD-05)
2. Information gathering

- Collect missing information from specific supplier
- Provides supplier an overview of current information in order to make clear where gaps exist
- Supplier completes sheet and returns missing information & supporting evidence

<table>
<thead>
<tr>
<th>Product information</th>
<th>Information about origin</th>
<th>Agreement on materials included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component</td>
<td>Species (scientific name)</td>
<td>Species (trade name)</td>
</tr>
<tr>
<td>1. Cunninghamia lanceolata</td>
<td>1. China/Pine</td>
<td>1. Raw from (South China Province)</td>
</tr>
<tr>
<td>2. MDF, Eucalyptus, and other mixed woods</td>
<td>2. Pine species, other unknown species</td>
<td>2. Raw from (South China Province)</td>
</tr>
<tr>
<td>3. Plywood (Pectus spp. and Primus spp.)</td>
<td>3. Pine species, other unknown species</td>
<td>3. Raw from (South China Province)</td>
</tr>
</tbody>
</table>

Supply Chain Information Form (DD-05)
2. Information gathering

- Inform suppliers of DD requirements & request supply chain info (DD-06)
- Record supply chain info (DD-04)
- Analyse info and identify gaps
- Request any missing info from specific supplier (DD-05)
- Where necessary, map supply chains (DD-07)
- Analyse info and identify gaps

Record supply chain info (DD-04)
2. Information gathering

- Where necessary, map the supply chain back to source
- Information on each upstream supplier can be entered
- Including name, address, type of company, certification

### Supply Chain Detail

<table>
<thead>
<tr>
<th>No.</th>
<th>Supplier Name</th>
<th>Type of entity</th>
<th>Material Type</th>
<th>Certification (ISO 9001)</th>
<th>Certification code of supplier (if applicable)</th>
<th>Location</th>
<th>Contact Information</th>
<th>Supporting Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Component Ltd</td>
<td>Secondary Manufacturing</td>
<td>Quemus mongolica</td>
<td>No</td>
<td>Nepali</td>
<td>Kallam</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Sawmill Ltd</td>
<td>Sawmill</td>
<td>Quemus mongolica</td>
<td>No</td>
<td>Nepali</td>
<td>Colombo</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Supply Chain Example

- Component Ltd: Secondary Manufacturing, Quemus mongolica, Nepali, Kallam
- Sawmill Ltd: Sawmill, Quemus mongolica, Nepali, Colombo
2. Information gathering

Inform suppliers of DD requirements & request supply chain info (DD-06)

Record supply chain info (DD-04)

Analyze info and identify gaps

Request any missing info from specific supplier (DD-05)

Analyze info and identify gaps

Where necessary, map supply chains (DD-07)

Analyze info and identify gaps

Record supply chain info (DD-04)
2. Information gathering

China Timber Risk Profile

This page provides an overview of the legality risks related to timber produced in China. Forests cover about 21% of the country, of which:

- 3% is bamboo forest
- 64% is natural forest (whether bamboo or not)
2. Information gathering

**Corruption Perception Index**

*Score:* 40 / 100 in 2016

*Rank:* 79 out of 176 countries in 2016

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**Bans and restrictions**

A moratorium on commercial harvesting from state owned natural forests was put in place in 2016 and extended to all natural forests from the beginning of 2017. By the end of 2017, no logging in natural forests will be allowed. Forest maintenance is allowed and timber from this can be sold legally.

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**Armed conflict**

There is an unchanging conflict status in China because of territorial disputes in the sea and secretarian conflict, according to the Council on Foreign Relations' Global Conflict Tracker.

According to the Uppsala Conflict Data Program there were 5 deaths from 2010-2016.

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**CITES species**

*CITES* appendix II: *Dalbergia* spp. and *Taxus* spp.
2. Information gathering

In the *Information Gathering* tab (1), there is a clear description of the source types in a country:

<table>
<thead>
<tr>
<th>Timber source types</th>
<th>Description of source type</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plants</strong></td>
<td></td>
</tr>
<tr>
<td>Timber from commercial plantations. These can be collectively, individually or corporately owned commercial plantations, and are mostly state managed. A harvesting permit and logging permit application is required. <strong>This is the primary source of timber in China.</strong> Timber from forests planted for other purpose, such as fruit trees, are known as economic forests. When the forest has no yield, it may be cut as materials for forest products. A harvesting permit, logging permit application and forest tenure certificate are required.</td>
<td></td>
</tr>
<tr>
<td><strong>Natural forests</strong></td>
<td></td>
</tr>
<tr>
<td>State owned natural forests are not a source of timber, except for:</td>
<td></td>
</tr>
<tr>
<td>• Timber from felling.</td>
<td></td>
</tr>
<tr>
<td>• Timber from natural forest managed by collectives, individuals or corporations. Though not that the logging ban is increasingly implemented through contracts with forest owners.</td>
<td></td>
</tr>
<tr>
<td>Protected forests (Class III) are a limited source of timber. They are state or collectively owned, and include natural and planted forests. A harvesting permit, logging permit application, forest management plan, logging plan, regeneration certification for previous year, forest tenure certificate and the approval of local, provincial and state governments are required.</td>
<td></td>
</tr>
<tr>
<td><strong>Bamboo forests</strong></td>
<td></td>
</tr>
<tr>
<td>Timber from trees/bamboo planted around farm houses and households.</td>
<td></td>
</tr>
<tr>
<td>Bamboo forest refers to advantageous bamboo species, generally including timber bamboo forest, shoot bamboo forest and timber-shoot bamboo forest. Harvesting permit - ‘In some provinces’ and logging permit application (in some provinces) are required.</td>
<td></td>
</tr>
</tbody>
</table>
What do we mean by ‘source type’?

• Forests in a country may face different levels and types of risks of illegality.

• Where the risks differ between different types we identify them.

• The different features of forests that we consider:
  ✓ Forest type
  ✓ Location
  ✓ Legal status
  ✓ Ownership
  ✓ Management
2. Information gathering

...an overview of the key documents for that country:

<table>
<thead>
<tr>
<th>Key Documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>These are the main documents used to indicate legality. Our Document Guide gives examples of what these documents look like and what sections you need to check.</td>
</tr>
</tbody>
</table>

- Business registration certificate
- Forest tenure certificate
- Harvesting permit
- Forest management plan
- Training records for safe operation
- Records of social insurance
- Work permit for special occupations
- Accident records and related administrative procedures and measures
- Employment contract

**Forest level**
- Delivery note
- Transportation permit
- VAT invoice
- Supply contract (applicable only to state owned)
- Sales receipts (applicable only to forest farm)
- Processing permit
- Business registration certificate
- Tax registration certificate

**Trade and transport**
- Import to China
  - Commercial Invoice
  - Packing list
  - Bill of lading
- Export and custom
  - Certificate of origin (if applicable)
  - Phytosanitary certificate

**Export from China**
- Customs declaration registration approval certificate for customs declaration company
- Customs declaration registration approval certificate for consignor and consignee of import/export goods
- Phytosanitary certificate
...and you can download the **Document Guide** to find out more:
3. Risk assessment
2. Risk assessment

• In the previous step, you secured access to information on your supply chains.

• Now, you can assess the risk associated with those products.
In the *Risk Assessment* tab (2), there is a summary of the risks identified at a country level. They are divided into the five areas of law relevant to the EUTR:

- **Legal rights to harvest**
  - Risk of lack of registration and tenure certificates (applicable only to collective forest plantation only)
  - Risk of conflicts in relation to land rent (applicable only to collective forest plantation only)
  - Risk of lack of management plans and failure to meet the requirements for drafting management plans (applicable on to state-owned forest management enterprises)
  - Risk of harvesting without permit and unlawful issuing of harvesting permit

- **Taxes and fees**
  - Risk that value-added taxes (VAT) are not paid appropriately

- **Timber harvesting activities**
  - Risk of lack of use of safety equipment
  - Risk of lack of employment contracts
  - Risk of lack of social security payments

- **Trade and transport**
  - Misunder reporting on customs declarations

- **Traceability**
  - Risk of false declaration of origin
  - Risk of timber mixing in production and trade
B. Overview of timber legality risks in China

Timber Risk Score: 73 / 100 in 2017

This report contains an evaluation of the risk of illegality in China for five categories and 21 sub-categories of law. We found:
- Specified risk for 5 sub-cATEGORIES.
- Low risk for 13 sub-cATEGORIES.
- No legal requirements for 3 sub-cATEGORIES.

The Timber Risk Score for China is 73 out of 100. The key legality risks identified in this report concern legal rights to harvest, taxes and fees, timber harvesting activities and trade and transport.

For Legal Rights to Harvest, there is a risk of:
- A lack of registration and tenure certificates (applicable only to collective forest plantation only) (Sub-category 1.1)
- Conflicts in relation to land rent (applicable only to collective forest plantation only) (1.1)
- A lack of management plans and failure to meet the requirements for drafting management plans (applicable on to state-owned forest management enterprises) (1.3)
- Harvesting without permit and unlawful issuing of harvesting permit and the (1.4)

For Taxes and Fees, there is a risk that that value-added taxes (VAT) are not paid according to law (1.6).

For Timber Harvesting Activities, there is risk that:
- Safety equipment is not used in harvesting activities (1.11)
- Employment contracts are not in place for all employees (1.12)
- Social security payments are not up to date for all employees

For Trade and Transport, there is a risk of misss-/under reporting on customs declarations, exacerbated by the issues related to corruption and poor governance (1.19).

Timber source types and risks

There are three timber source types found in China. Knowing the “source type” that timber originates from is useful because different source types can be subject to different applicable legislation and have attributes that affect the risk of non-compliance with the legislation. We have analysed the risks for all source types and found the risks differ between them.

| Plantation Forest | Commercial Plantation Timber – from collectively, individually or corporately owned commercial plantations, mostly state managed. A harvesting permit and logging permit application is required. The is the primary source of timber in China. |

<table>
<thead>
<tr>
<th>Legal Category</th>
<th>Sub-Category</th>
<th>Source Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal rights to harvest</td>
<td>1.1 Land tenure and management rights</td>
<td>Natural forest: Low, Specified: Low, Plantation forest: Specified, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.2 Concession licenses</td>
<td>Natural forest: N/A, Plantation forest: N/A, Bamboo forest: N/A</td>
</tr>
<tr>
<td></td>
<td>1.3 Management and harvesting planning</td>
<td>Natural forest: Specified, Plantation forest: Specified, Bamboo forest: Specified</td>
</tr>
<tr>
<td></td>
<td>1.4 Harvesting permits</td>
<td>Natural forest: Specified, Plantation forest: Specified, Bamboo forest: Specified</td>
</tr>
<tr>
<td>Taxes and fees</td>
<td>1.5 Payment of royalties and harvesting fees</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.6 Value added taxes and other sales taxes</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.7 Income and profit taxes</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td>Timber harvesting activities</td>
<td>1.8 Timber harvesting regulations</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.9 Protected sites and species</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.10 Environmental requirements</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.11 Health and safety</td>
<td>Natural forest: Specified, Plantation forest: Specified, Bamboo forest: Specified</td>
</tr>
<tr>
<td></td>
<td>1.12 Legal employment</td>
<td>Natural forest: Specified, Plantation forest: Specified, Bamboo forest: Specified</td>
</tr>
<tr>
<td>Third parties' rights</td>
<td>1.13 Customary rights</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.14 Free prior and informed consent</td>
<td>Natural forest: N/A, Plantation forest: N/A, Bamboo forest: N/A</td>
</tr>
<tr>
<td></td>
<td>1.15 Indigenous/traditional peoples rights</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td>Trade and transport</td>
<td>1.16 Classification of species, quantities, qualities</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.17 Trade and transport</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.18 Offshore trading and transfer pricing</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.19 Custom regulations</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td></td>
<td>1.20 CITES</td>
<td>Natural forest: Low, Plantation forest: Low, Bamboo forest: Low</td>
</tr>
<tr>
<td>Diligence due care procedures</td>
<td>1.21 Legislation requiring due diligence due care procedures</td>
<td>Natural forest: N/A, Plantation forest: N/A, Bamboo forest: N/A</td>
</tr>
</tbody>
</table>
D. Legality Risk Assessment

LEGAL RIGHTS TO HARVEST

1.1. Land tenure and management rights

Legislation covering land tenure rights, including customary rights as well as management rights that includes the use of legal methods to obtain tenure rights and management rights. It also covers legal business registration and tax registration, including relevant legal requirements. Risk may be encountered where land rights have not been issued according to prevailing regulations and where corruption has been involved in the process of issuing land tenure and management rights. The intent of this indicator is to ensure that any land tenure and management rights have been issued according to the legislation.

1.1.1. Applicable laws and regulations


2) General Principle of Civil Law of the People's Republic of China dated 12th of April 1986 - Article 80-83. Available at: [link]


6) Regulation on the Implementation of the Forestry Law of the People's Republic of China [Revised], dated 29th January 2008 - Article 15, 34. Available at: [link]

7) Processing Measures for the Disputes of Forest Trees and Forest Land Tenure and Ownership dated 14th October 1996 – Article 2. Available at: [link]

8) Administration Measures for Forest and Forestland Tenure Registration dated 31st December 2009 – Article 3-9. Available at: [link]


11) Taxation Registration Administration Measure dated 1st February 2004 – Chapter 1 & 2. Available at: [link]

12) Regulations Governing Examination and Approval of Occupation and Requisition of Forest Land dated 4th January 2001. Available at: [link]

13) Land management law of P. R. China dated 25th of June 1986 and revised 28th of August 2004. Available at: [link]

All the provinces shall apply the laws listed above but may still take different approaches to ensure the right of land tenure and management.

1.1.2. Legal authority

- Forestry Administration and forest bureaus at different levels are responsible for the laws about forest, forest trees and forest land.
- Administration of Taxation is responsible for Taxation, Registration, Administration and Measure.
- Administration for Industry and Commerce is responsible for Company Law.

1.1.3. Legally required documents or records

Numbers below refers to the numbers in section 1.1.1.

8) Administration Measures for Forest and Forestland Tenure Registration dated 21st December 2000 – Article 3-9:
- Forest Tree and Forest Land Tenure Certificate (Forest Tenure Certificate)

10) Company Law of the People's Republic of China (2005 Revision) dated 1st January 2006 – Article 6-9:
- For companies leasing forest land for forest management: Forest land contract in addition to the above certificate.
- Business Registration Certificate, only applicable for companies mentioned above

11) Taxation Registration Administration Measure dated 1st February 2004 – Chapter 1 and 2:
- Tax Registration Certificate, applicable only for companies

1.1.4. Sources of information

1) Chatham House. Available at: [link]
2) ELDIS regional and country profiles. Available at: [link]
3) Environmental Investigation Agency. Available at: [link]


1.1.5. Risk determination
Overview of legal requirements
The Constitution, General Principle of Civil Law, and the Forestry Law of China provide that forest resources are owned by the State except for those owned by collectives according to laws. There are three forms of ownership to forest, timber and forest land:

(i) State-owned forest, timber and forest land;

(ii) Collectively owned forest, timber and forest land; as well as

1.2. Concession licenses
Legislation regulating procedures for the 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. The intent of this indicator is to avoid risk related to
2. Risk assessment

Additional tools to assist with the risk assessment process:

• Annex 2 of **DD-01 The Due Diligence Guidelines** introduces the risk identification process.

• **DD-08 Risk Identification Checklist Template** provides a template to conduct risk identification on specific supply chains.

• Record the risk conclusion in the **Supplier Management Form DD-04** to provide an overview of risk across all supply chains.

• **The Supply Chain Mapping Tool DD-07** can be used to record supply chain information at a detailed level.

• Annex 3 of **DD-01 The Due Diligence Guidelines** provides guidance on how to specify risks.

• The **Certification System Evaluation Checklist DD-13** can be used to record the certification scheme assessment.
4. Risk mitigation
4. Risk mitigation

The *Risk Mitigation tab* (3) includes the downloads for the supply chain mapping tool and a complete Risk Mitigation Guide, specific to the country.

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**Mitigate the risks in your supply chain**

Learn which actions we recommended to mitigate the risks associated with the timber sources from China.

**Mitigation recommendations**

We have two tools to help you mitigate risks for Chinese timber supply chains:

- the Risk Mitigation Guide gives you a detailed overview of risks in China, and how to mitigate them.
- the Document Guide provides you with a list of all required documents and examples of key documents and how to use them in mitigating risks.

The tools above give you the most information. Below is a summary of our six recommended actions to mitigate the risks associated with timber sources from China.

1. Fully map your supply chain
   - Our supply chain mapping tool can help you do this.

2. Obtain and verify documents
   - Forest level documents
     - Business Registration Certificate and Tax Registration Certificate
     - Contract
     - Forest Tenure Certificate
### 4. Risk mitigation

#### Customs Regulations

<table>
<thead>
<tr>
<th>Risk</th>
<th>Applicable to</th>
<th>Indicator of legal compliance</th>
<th>Potential mitigation actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mis-/ under reporting on customs declarations</td>
<td>All timber sources</td>
<td>Products shall be correctly classified (type, HS customs code, species, quantities, qualities, etc.)</td>
<td>Review and verify documents: Check information on all import/export documentation (including Customs Declaration Registration Approval Certificate and phytosanitary certificate (where applicable)) and verify that information corresponds to material received.</td>
</tr>
</tbody>
</table>

- Customs Declaration Registration Approval Certificate
- Phytosanitary certificate (where applicable)

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Version 1.0 | May 2017

China Risk Mitigation Guide

Timber

**This tool has been developed by NEPCon with support from the LIFE programme of the European Union and UK aid from the UK government.**
4. Risk mitigation

Example 14: Customs declaration registration approval certificate for customs declaration company

(Registration form of external trade proprietor)

Applicable to: Forest entities who export timber to other countries

Purpose and content of document: All entities that have import and export business should register at Ministry of Commerce of China to obtain the right to import and export. The registration form shows that the holder has the right to legally import export. The contents of the registration certificate are: name of the entity (both English and Chinese names), address, organisation code, contact information, business registration code etc.

Holder of document: Forest entities exporting timber to other countries

Document issued by: Ministry of Commerce

Signature/Seal required by: Local branches of Ministry of Commerce

Key considerations when checking the document:
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- Is the business registration code the same as that appearing on the business registration certificate?
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4. Risk mitigation

## Customs Regulations

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<th>Indicator of legal compliance</th>
<th>Potential mitigation actions</th>
<th>How to verify legal compliance (verifier)</th>
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| Mi- or under reporting on customs declarations | All timber sources | Products shall be correctly classified (type, HS customs code, species, quantities, qualities, etc.) | Review and verify documents  
Check information on all import/export documentation (including Customs Declaration Registration Approval Certificate and phytosanitary certificate (where applicable)) and verify that information corresponds to material received. |  
- Customs Declaration Registration Approval Certificate  
- Phytosanitary certificate (where applicable) |

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Country profile page

Sector overview

Information gathering

Country source types to help identify the legal sources of timber for a country

Overview of risky species to help reduce risks in the supply chain

Key documents that can indicate legality of timber sourced from a country

Risk assessment

Summary of the key legality risks relevant to timber supply chains from a country

Legal Rights to Harvest

Taxes and Fees

Timber Harvesting Activities

Third Parties' Rights

Trade and Transport

Traceability

Risk mitigation

Clear instructions on how to mitigate risks identified for a specific country

Comprehensive Risk Mitigation Guide and Document Guide
NEPCon Sourcing Hub was developed in partnership with the Forest Stewardship Council with support from the Ministry of Foreign Affairs of Denmark, DANIDA, and UK Aid.

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