

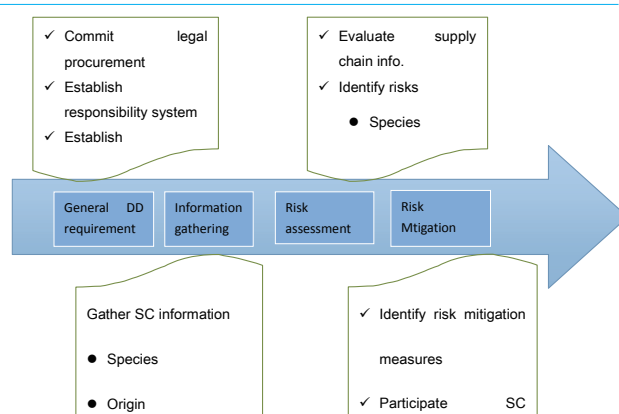
## China Timber Legality Due Diligence Toolkit

### Background and Objectives

The EU, the USA and Australia, as the main consumer markets, have released legislations on illegal logging, requiring companies to exercise due diligence, i.e., a knowledge of the origin and supply chain of timber and timber products. These legislations have imposed tremendous impact on China's international trade in forest products as over 80% of Chinese export-oriented processors and manufacturers are facing the legality requirements from main export market with time moving on. In this context, these Chinese companies need to take efforts to meet the new requirements and changes in international market by cooperating overseas customers to practice the due diligence for conforming to legality requirements so as to maintain their market access and market share as well as contribute to the responsible forest trade in China. Under the support of InFIT program, we develop the China Timber Legality Due Diligence Toolkit. The Toolkit was developed based on the reality and needs of Chinese companies in meeting legality requirements and in reference with NEPCo's LegalSource standard and its Due Diligence tools/templates. The Toolkit would be also refined and improved in line with the practices and needs of companies in their use of it.

### What is Timber Legality Due Diligence ?

Timber Legality Due Diligence is a means to manage the procurement of timber and timber products in order to ensure the legal origin of timber and reduce the risk in placing illegally logged timber or related products into market. China Timber Legality Due Diligence System is the one to improve the capacity of timber processors, manufacturers and trader to manage the risk of illegality by fulfilling the requirements of overall requirements, information gathering, risk assessment and risk mitigation so as to meet the due diligence requirements from consumer markets for legality.



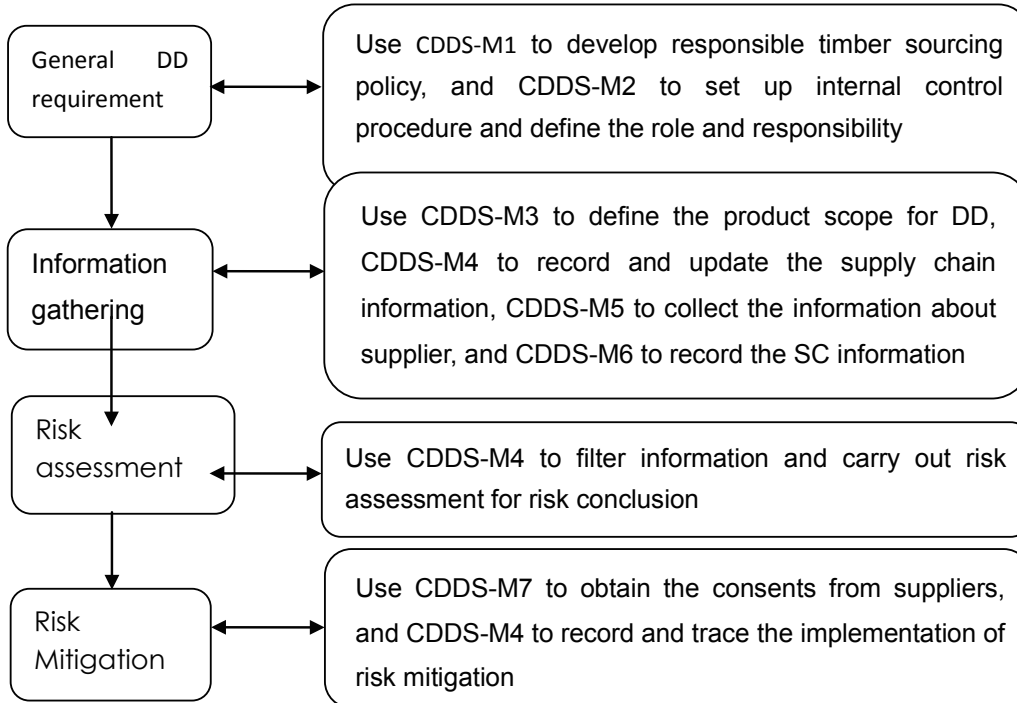
Code	Name	Content
<b>Part I: Due Diligence Guidelines</b>		
CDDS-G1	DD Procedure Guidelines	The guidance over how to use procedures and tools/templates to exercise due diligence
CDDS-G2	Risk Assessment Guidelines	The guidance over how to gather SC information and evaluate risks to ensure the completeness and integrity of information for risk identification in terms of origin, species and supply chain
CDDS-G3	Risk Mitigation Guidelines	The guidance over how companies take actions to mitigate potential risks.
CDDS-G4	Supplier Evaluation Guidelines	The guidance of how companies carry out the auditing of their suppliers to see if there are risk in illegality in terms of origin and supplier practices
<b>Part II: Due Diligence Tools</b>		
CDDS-M1	Responsible procurement policy	The template is applicable for different types of companies and could be revised to be tailored to the needs of companies but the revision must ensure the commitment scope and content must conform to or be higher than the template.
CDDS-M2	Corporate Due Diligence Procedure Manual	A template for companies to establish their own DD procedure. This could be adapted to reflect the reality and needs of companies in their operation. In addition, this templates contains the key elements and requirements of CTLVS.
CDDS-M3	Responsible forest product information sheet	This sheet defines the product scope for companies to exercise due diligence
CDDS-M4	Supply chain management and risk evaluation sheet	The Sheet assist companies in collecting information and evaluate risk based on the information, which enable them collect and keep the information about suppliers, origins and products and conclude the risks.
CDDS-M5	Supplier information sheet	This sheet is used to collect the information about suppliers and their products, especially the non-certified materials.
CDDS-M6	Supply chain information sheet	This sheet is used to collect and manage the information about upstream supplier and origin of products, which is applicable when there is a need to collect more detailed information on supply chain from suppliers.
CDDS-M7	Supplier consent letter	This letter could be sent to suppliers when there is a non-negligible risk to collect the consent from suppliers for second or third party auditing.

### Main Content of China Timber Legality Due Diligence Toolkit

The Toolkit includes two parts: guidelines and tools/templates and aims at helping companies to effectively gather information of materials and evaluate potential risks and also take risk mitigation measures to reduce illegality risk if potential risks are specified. The guidelines provide practical stepwise guidance to companies for how to use template and tools as per due diligence requirements, while tools and templates assist companies in their supply chain management as well as internal management and monitoring.

## Toolkit Fast Use Guidance

The fast use guidance provide a simplified and explicit explanation for companies on how to use specific tools or templates for due diligence.



## Due Diligence Guidelines



### Due Diligence Procedure Guidelines

Meet the general requirements of due diligence

1

- |  |   |
|--|---|
| 1.1 Responsible purchasing policy                | 1.2 Define CDDS product scope             |
| 1.3 Identify position and responsibilities       | 1.4 Establish DDS internal control system |
| 1.5 Carrying out training and DDS implementation | 1.6 Monitoring DDS implementation         |

Information gathering

2

- |                                     |                               |                      |
|-------------------------------------|-------------------------------|----------------------|
| 2.1 Record information of suppliers | 2.2 Collect other information | 2.3 Map supply chain |
|-------------------------------------|-------------------------------|----------------------|

Risk assessment

3

- |  |                         |
|--|-------------------------|
| 3.1 Information evaluation/ classification     | 3.2 Risk identification |
| 3.3 Record risk conclusion and non-conformance |                         |

Risk mitigation

4

- |                                 |  |
|---------------------------------|--|
| 4.1 Identify mitigation actions | 4.2 Cooperate with suppliers                     |
| 4.3 Conduct mitigation actions  | 4.4 Evaluate effectiveness of mitigation actions |



Risk Assessment Guidelines

The factors considered in risk assessment mainly include: i) the illegality risk relevant to forest management and harvesting operation; ii) the illegality risk relevant to timber trade and transportation along supply chains; iii) the risk of mixing of unknown or illegal timber into legal timber. Hence, the assessment of risk could be carried out in terms of risk controlled or non-controlled materials, species, supply chain and origin.

- 1 Evaluate the information gathered for the relevance, completeness and integrity**  
Information evaluation is the first step to assess risk with the purpose to evaluate if the information gathered is complete, accurate and relevant to product and if they contribute to the risk evaluation at latter stage.
- 2 Evaluate the risk controlled materials**  
Certified or verified materials could be regarded as the risk controlled materials with negligible risk, but still need to be further evaluated.
- 3 Evaluate the risk uncontrolled materials**  
Risks in terms of supply chain, origin and species need to be identified for the risk uncontrolled materials.
- 4 Use risk assessment form to evaluate risks**  
Risk assessment form could be used to evaluate the legality risk in products or supply chain.

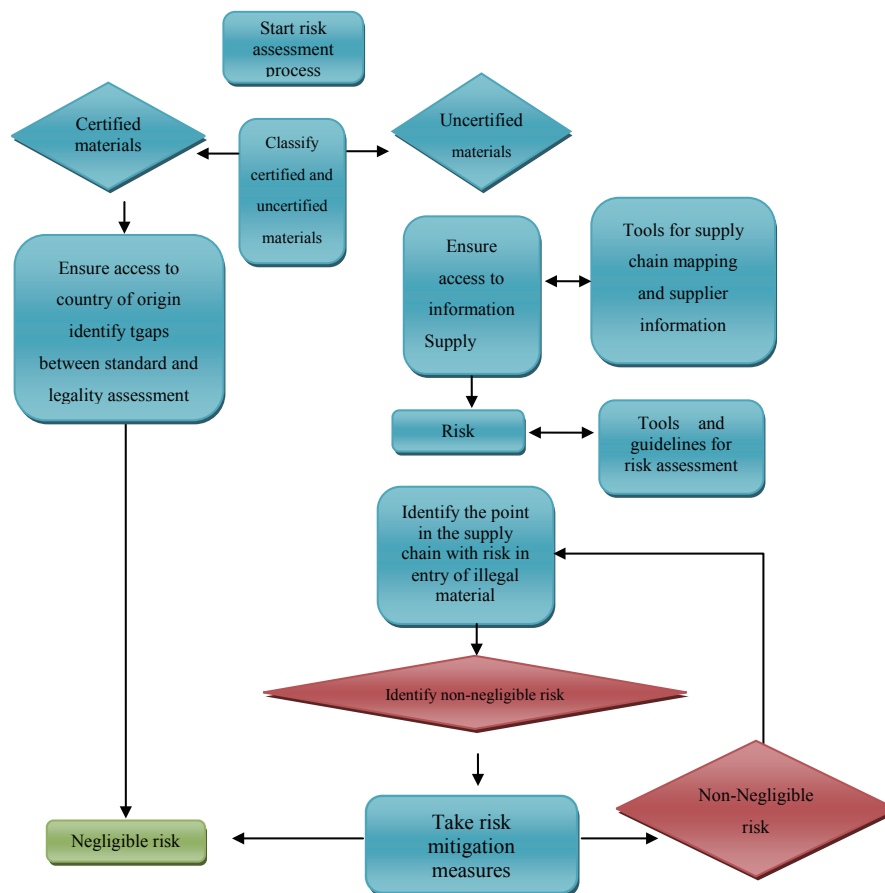
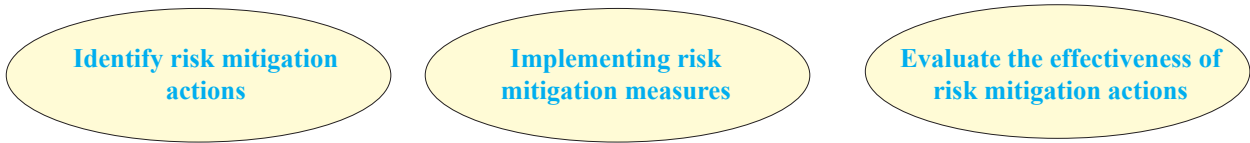


Chart for timber legality risk assessment

**G3**

**Risk Mitigation Guidelines**

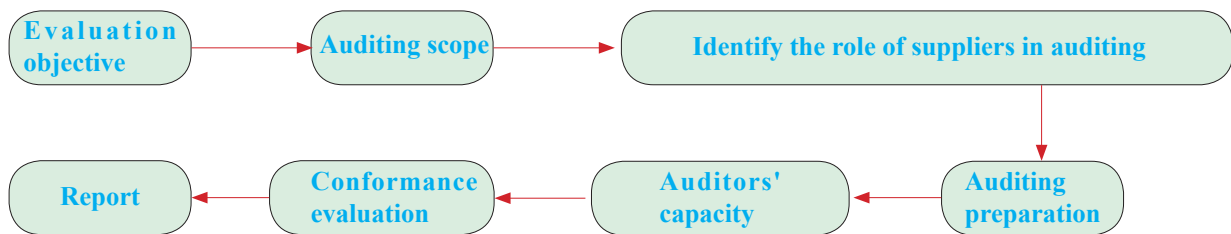
Risk mitigation guidelines is aimed at guiding companies to take potential risk mitigation actions.



**G4**

**Supplier Evaluation Guidelines**

This guidelines is developed for the companies that desire to develop their own verification system and could be used to identify the risk in the origin or suppliers. Companies that don't want have their own system could ask third-party certification bodies for the verification.



**Tools/Templates in Toolkit**

**M1**

**Responsible forest product procurment policy**

Companies commit:

- Material procurement
- Social responsibility
- Environment responsibility
- SC management and information
- Risk assessment and mitigation
- Monitoring and auditing
- Sustainable improvement
- Policy amendment
- Policy publication

**M2**

**Timber legality DD procedure manual**

