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Timber Trade Federation

Responsible Purchasing Policy

Document 4

Background to the RPP

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Definitions

Term	Explanation
Accreditation	A mechanism for ensuring that organisations that undertake certification are competent and produce credible results
Certification	The process of establishing whether or not a standard has been met
CAR	Corrective Action Request
CSA	Canadian Standards Association
Chain of custody	Set of technologies, procedures and documents that are used to manage the wood supply chain
CITES	Convention on International Trade in Endangered Species
CPET	Central Point of Expertise on Timber
DEFRA	Department of Environment, Farming and Rural Affairs
FLEGT	Forest Law, Enforcement, Governance and Trade
FSC	Forest Stewardship Council
GTFN	WWF's Global Timber and Forest Network
Legal source	General guideline. A forest where the producer has: <ul style="list-style-type: none">• The necessary rights and permits• Fulfilled all relevant national legislation• Paid all due taxes and duties• Secured all necessary statutory declarations
Legal and working towards sustainable source	A forest where the producer has: <ul style="list-style-type: none">• The necessary rights and permits• Fulfilled all relevant national legislation• Paid all due taxes and duties• Secured all necessary statutory declarations• And has a stated timetable for getting certified
PEFC	Formerly Pan European Forest Certification Scheme
RPP	TTF's Responsible Purchasing Policy
SFI	Sustainable Forestry Initiative
Standard	Documents that set out the requirements which must be met against which independent audits are made
Sustainable source	A forest managed in a way that is socially beneficial, environmentally benign and economically sound. The baseline issues that need to be considered include: <ul style="list-style-type: none">• Sound legislative and institutional frameworks• The size of the forest resource• The health and vitality of forests• The production functions of forests• The protection function of forests• Biodiversity• Socio-economic, cultural, and spiritual benefits and needs
TFT	Tropical Forest Trust

INTRODUCTION

This document sets out the aims and objectives driving the development of the TTF's Responsible Purchasing Policy (RPP). It describes the form the Policy takes; the supporting implementation system; and the associated verification system. It provides the background to the RPP's development.

Driver 1: The TTF's Code of Conduct

The Code of Conduct, which all TTF members are required to adopt and comply with, states:

'Members are committed to sourcing their timber and timber products from legal and well-managed forests. Members unreservedly condemn illegal logging practices and commit themselves to working with suppliers and other stakeholders towards complete elimination.'

The RPP has been established to enable members to demonstrate compliance with the above.

Driver 2: UK Govt Timber Procurement Policy

The Government's Procurement Policy is core to the revision of the RPP. The Govt is committed to implementing 'environmentally sound timber procurement practices'. The Govt is taking action to force the public sector to act as one in using its substantial purchasing power to increase the supply of timber from legal and sustainably managed sources. The Govt is proposing to:

- Only sanction the purchasing of timber that meets one of three variant specifications:
 - **Legal**
 - **Legal and working towards sustainable**
 - **Sustainable**
- Create an independent Central Point of Expertise on Timber (CPET) to advise the public sector on buying timber that meets Govt specifications
- Only accept timber that has been independently verified as having met one of the variant specifications

DEFRA have employed Proforest and Environmental Resources Management Ltd to prepare a report on a range of certification programmes to determine whether or not they meet UK Government requirements. This represents the first expenditure and actions by CPET.

The Responsible Purchasing Policy is designed to act as a 'fast track' for TTF members wanting to be recognized by the Govt as satisfying the needs of their Timber Procurement Policy.

Driver 3: EC Forest Law Enforcement Governance and Trade Action Plan

In May/June 2003 the EC published its Forest Law Enforcement Governance and Trade (FLEGT) Action Plan. This describes the actions that the EC intends to take and support in order to reduce and ultimately eliminate illegal timber imports into the EU.

The main areas of focus are:

- Development of co-operation with countries that are the sources of illegal timber
- **A voluntary licensing scheme whereby partner countries issue a permit attesting to the legality of timber exported to the EU**
- Advice to organisations directly responsible for public procurement on how to ensure that only legal timber is purchased
- **Support for private sector initiatives that support best practice by timber importers**

- Encouraging banks and foreign investment organisations to undertake appropriate due diligence before investing in the forestry/timber sector to ensure that they are not supporting illegal logging activities
- The promotion of a co-ordinated pan-European response to illegal logging and the import of illegal timber
- The development of appropriate legislation designed to constrain the import of illegal timber

In October 2003, the Council of Ministers approved the FLEGT Action plan.

Area 2 will potentially have most impact (at this stage) on the UK timber trade. Given the complexity of the legal and policy frameworks in many countries, it is unlikely that any licensing agreement will be ratified before the mid-2005.

Driver 4: Views of the membership

A number of TTF members have stated that:

- The entire sector 'brand' is being damaged by some members poor practices
- Environmental issues and the need to take cognisance of Govt requirements are key to their future business
- The existing ETPP is weak, provides no business benefits and needs to be revised

The TTF's ongoing Corporate Social Responsibility study has revealed a range of best practice initiatives that will be drawn on. It has also shown that the membership has an enormous amount to add to the development of the RPP.

Development of the Responsible Purchasing Policy

The RPP has been developed with the specific objectives of satisfying the needs of the TTF's Code of Conduct, UK Govt Purchasing Policy and the EC FLEGT Action Plan. This has been achieved through a number of consultative steps.

Step 1

- The RPP text and supporting systems have been constructed around and designed to address:
 - TTF's Code of Conduct
 - UK Govt Timber Procurement Policy and EU FLEGT Action Plan
 - The need for independent verification of claims regarding timber provenance
 - Purchasing risks created when TTF members make claims about the legal/environmental qualities of timber shipments that cannot be substantiated
 - Findings of the TTF's Corporate Social Responsibility project

Step 2

- Definition of a stepwise approach for RPP implementation
- Definition of a systematic approach for assessing performance against RPP requirements
- Creation of a RPP Project Group with 8 or so representative TTF members to consider and approve the new wording and stepwise approach

Step 3

- Ensuring that the TTF membership is consulted systematically at both the Division, Regional levels and national levels
- Consulting with independent organisations, Govt, and non-Govt, to obtain their feedback on the new policy and approach

Step 4

- Pilot testing the RPP and its implementation process with 4 selected companies
- Public launch of the RPP in January 2005

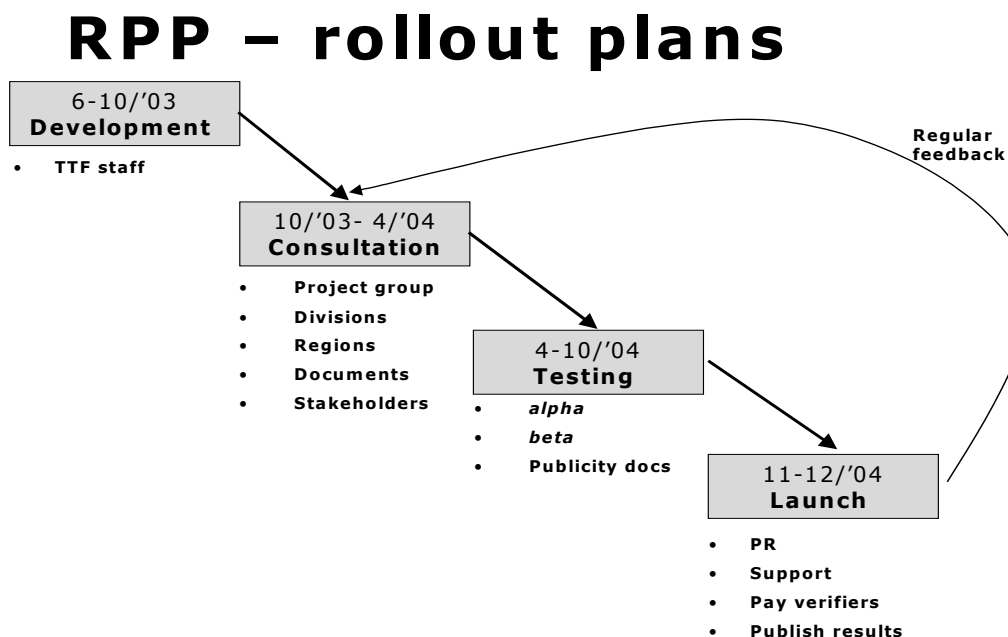
Consultation

Effective consultation during the development stage of the programme has been fundamental to the success of the RPP. Consultations have taken place with DEFRA, DFID, the Forestry Commission, the UK Forest Industries Assoc, each separate division of the TTF, the regional TTF committees, the leading environmental NGO's (namely WWF, WWF's GFTN, and Greenpeace).

Timetable for rollout

Table 1 outlines the planned timing of the roll out for the RPP. This is likely to change over time but not substantially.

Table 1 Timetable for rollout



Signatory commitments

Signatories to the new policy are committing their companies to:

1. Adhering to the various elements of the RPP and the implementation framework
2. Implementing a systematic approach for supplier assessments
3. Continuous improvement in performance
4. Paying a modest fee for the independent verification and closure of any CAR's

Signatory benefits

Signatories will benefit from:

1. Potential recognition – as yet to be defined – by the UK Govt with regard to compliance with the new and evolving Govt Timber Procurement requirements
2. A systematic and defensible risk assessment methodology for timber procurement

Signatory qualifications

Initially it is proposed that RPP programme membership is restricted to existing TTF members. There may, in the longer term, be a case for making it open to non-members (particularly if the programme is to be officially acknowledged by DEFRA) but at a cost that is several magnitudes higher than TTF members are required to pay.

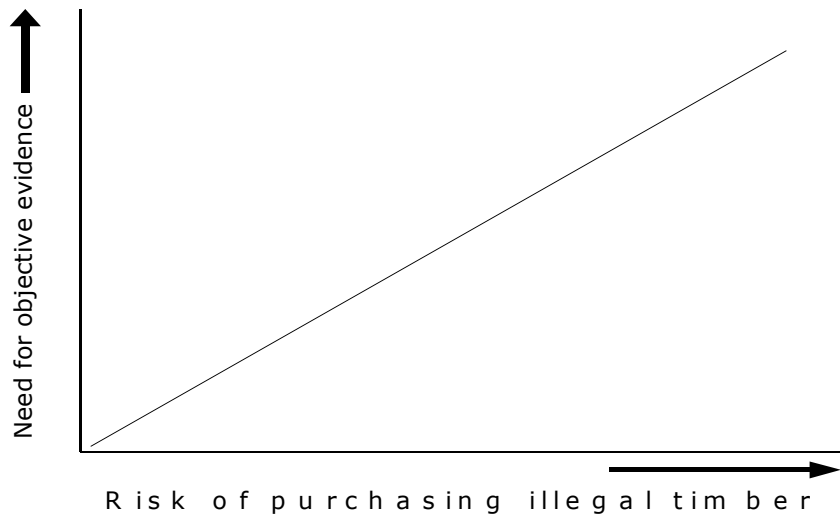
Signatories that fail to conform

Assuming there is objective evidence demonstrating that a Signatory is in non-compliance with the requirements of the RPP or its supporting system then actions will be taken that may ultimately lead to the Signatory being expelled from the programme. The Timber Trade Federation's Code of Conduct sets out a complaints procedure prepared in association with the Chartered Institute of Arbitrators. It is proposed that this procedure, in consultation with the Chartered Institute of Arbitrators, will be used as the procedure for resolving disputes with Signatories who fail to close out Major CARs.

Objective evidence supporting compliance

RPP Signatories are required to demonstrate supplier compliance by presenting objective evidence. The higher the risk associated with the procurement of a particular parcel of timber, the more important it will be to secure appropriate objective evidence as verification of its probity. The greater the performance claims in terms of 'sustainability', the greater the need for supportive objective evidence. The diagram below seeks to illustrate this point.

The higher the risk - the greater the need for objective evidence



Timber Procurement

Procurement of timber that does not meet specifications

The UK Govt appreciates that it will not be possible for timber traders to always purchase timber that meets the variant specifications. Every time timber is purchased for which there is no objective evidence proving legality, there is a potential risk.

RPP Signatories, are committing their companies to continuous improvement in terms of the legal/environmental quality of the timber they buy. On this basis RPP Signatories are required to risk assess 100% of the timber that they purchase.

RPP Signatories are then be able to state to their clients that whilst a particular shipment may not meet say the Legal requirements, that a due diligence process was implemented and as much objective evidence about the timber's provenance was gathered as was practical.

Procurement of timber processed in a country other than one in which the timber originated

Many forest managers and logging companies – and particularly those with something to hide - find they can sell their timber to undemanding markets (in terms of legal/environmental specifications) in countries such as China, Japan, Korea and Taiwan.

Using the precautionary principle, shipments of timber from these countries will need to be risk assessed in exactly the same way as timber from recognised high-risk areas.

Traceability

Identifying and tracking legal production is now seen as key to reducing the flow of illegal material. Legality can only be guaranteed when tracking systems are used. Traceability is fundamental in the fight against illegal timber; the higher the risk of illegality the greater the need for Traceability.

In forest certification terminology the systems and procedures required to track timber is often referred to as a chain-of-custody. A chain-of-custody comprises of technologies, procedures and documents used to gain an oversight of the wood supply chain. A chain-of-custody consists of three essential elements namely identification, segregation and documentation.

Increasingly technologies are being used that simplify tracking and convert it from a costly and laborious task into a process that has business benefits in terms of providing transparency and accountability for the supply chain without significantly adding to cost. As the demands for just-in-time delivery increases, tracking technologies can be turned to benefit those at the end of complex supply chains whilst also enabling those procuring timber to meet Govt Procurement Policy requirements.

Stepwise approach to continuous improvement

A stepwise methodology for timber procurement is recognised as a practical approach because:

1. Implementing the RPP system takes time and it's important that Signatories are recognised for making steady progress in the right direction rather than waiting until perfection is achieved
2. Raising the performance of a tried and tested supplier/producer to the necessary levels can take time and improvements need to be recognised and rewarded

This type of strategy is being used by the UK Govt, the WWF and IKEA. In terms of implementation of the RPP, two consecutive Phases have been identified with each Phase consisting of a number of progressive Levels. The diagram below provides an overview.

Process

Basic management systems need to be established to provide the foundations for achieving the performance targets set in the Performance phase and for ensuring that the appropriate objective evidence is gathered to demonstrate compliance. The Process phase ensures that the fundamental commitments and tools to operate the system are in place. The second phase concerns delivery and is focused on Performance.

Level 1 – TTF's Code of Conduct

The most fundamental level of the stepwise process is recognition and implementation of the Timber Trade Federation's Code of Conduct. The supporting document sets out:

1. A Code of Conduct
2. Hardwood Code of Practice
3. Panel Products Code of Practice
4. Softwood Code of Practice
5. Environmental Code of Practice
6. Complaints Procedure In Association with the Chartered Institute of Arbitrators

The Code is binding on all TTF Members and sets out principles by which Members agree to behave. It is strongly oriented to the way in which members interact with clients and forms a sound first step. There is no independent verification of performance, however, and it relies on complaints from dissatisfied clients rather than active demonstrations of the ability to deliver quality of the type Govt requires in a systematic fashion.

Level 2 – Development of a Timber Purchasing Policy and implementation of the risk assessment system

A framework purchasing policy sets out the conditions that Members will operate under when purchasing timber from suppliers. The policy conditions set out in the framework are a minimum to which members might wish to operate. Some will wish to add additional purchasing policies.

The risk assessment process will assist Members to identify suppliers that more likely to supply illegal timber. The system helps members quantify the legal/environmental/social quality of the timber they are buying, and it will help Signatories capture the appropriate objective evidence that underpins their assessment. This will be of value:

- For any TTF member wanting to supply or conform with the Govt, Timber Procurement Policy
- To enable the Signatories to understand their own degree of exposure
- To help Signatories systematically raise the legal/environmental/social quality of the products they sell
- For Signatories wanting to systematically address the concerns of stakeholders such as the environmental NGO's
- For the image of the timber trade in general.

Duration

Each year the MD/CEO will sign off against the internally imposed company targets. The company is therefore renewing its commitment to abide by the requirements of the RPP annually.

Role of the TTF

The TTF, in consultation with members and other stakeholders, will be responsible for:

- Development of the RPP, including its rollout, testing and launch
- All associated publicity
- The identification and contracting of the independent verifiers
- Maintaining close relations with the Govt in order to closely track the evolution of the CPET
- Acting in an advisory capacity to CPET
- Ensuring the continuous evolution and relevance of the RPP
- Work with technology companies in order help develop an online system

To prevent any conflict of interest, the TTF will remain completely independent of the individual company audits and the related compliance decisions. The TTF will deal and process any complaints from members regarding the conduct of the auditors. The TTF will also publish and promote the benchmarking results.

High risk sources

Identifying the geographical source of a timber shipment is key to identifying the level of risk. The higher the potential level of controversy, the greater the need for accurate identification of the source-forest and an independently verified chain-of-custody.

Typically controversial sources will include:

- High value conservation forest which may include boreal forest, temperate and tropical rainforest
- Areas from where conflict timber is being sold
- Areas where the incidence of timber theft is known to be high
- Areas where local communities and workers rights are ignored
- Areas where Govt and concession managers are in open conflict
- Illegally-awarded concessions
- Areas where timbers listed in the Appendices of CITES are being harvested

The RPP is intended to ensure signatories have correctly assessed the risks and that rational purchasing decisions are made in the light of knowledge of those risks.

Low risk sources

Typically non-controversial sources will include:

- Forests that have been independently certified by internationally recognised third party certification programmes (FSC, PEFC and so forth)
- Plantation areas where there are no ownership disputes or disputes over management with non-plantation stakeholders

- Forest areas where there has been a long history of careful and successful management that would stand up to scrutiny by experts in independent verification of best practice forest management.

It is intended that over time RPP Signatories, following the identification and appreciation of what constitutes 'high risk' parcels of timber will seek non-controversial sources or work with suppliers to convert potentially high risk to accepted low risk.

Legality and risk

The Govt is committed to curb their own use of illegal wood through the Govt, Timber Procurement policy and NGO's are stepping up their media campaigns, the targeting of specific companies and affirmative action.

TTF members who import illegal timber are at risk of:

- Not being able to bid for Govt contracts (or companies that bid for Govt contracts) once the Govt's Timber Procurement Policy is fully operational
- Becoming a target for NGO's and suffering from the associated brand damage
- Being potentially regarded as pariahs contributing significantly to environmental and social impoverishment in supplier countries
- Damaging the reputation of the UK timber trade
- Having their TTF membership rescinded as a consequence of breaking the Code of Conduct.

Identifying what is legal or illegal can be difficult, especially across international borders. Many timber-producing countries have numerous forest laws that are frequently complex and sometimes contradictory.

If members are censured, wrongly or rightly, for the import of illegal timber, the TTF will be most able to support them effectively when it can be demonstrated that they have undertaken a systematic 'due diligence' audit of their sources.

Setting targets

It is recognised that the pragmatic approach is for companies to set their own practical percentage targets as per the four Levels, namely Risk Assessed (timber with no objective evidence to prove that it is legal or sustainable), Legal, Legal and working towards sustainable and sustainable. These targets will be requested in terms of percentage of annual volumes purchased.

It is logical that Signatories must be fully compliant with the Process Phase before they can attain the various performance levels set out in the Performance Phase; it is impossible to build performance without the adequate process foundations being in place.

Performance

Level 3 – Risk assessed

All timber procured will need to be risk assessed in the manner already broadly outlined. The UK Govt have yet to fully establish the Central Point of Expertise on Timber (CPET). One of the roles of the CPET will be to provide advice on what constitutes a 'legal' or 'legal and working towards sustainable' or 'sustainable' source.

Level 4 – Legal

Defining what is legal and what is not, whilst on the surface may appear simple in reality is complex. There is no general global standard that can be applied since the laws of each producer country are particular to that country and have frequently evolved over many years in unique ways. National forest laws are a reflection of a range of historical, political, social and cultural influences. They are frequently

complex, multi-layered and contradictory having evolved and adapted to cope with rapidly changing situations. Many state Govt's are still of the opinion that a social or environmental or economic imbalance can be readily solved with a new law. Reality suggests that laws whilst providing a framework, are only part of the solution and in the absence of all the other facets of effective management, are ineffective.

In the absence of CPET it is suggested that the general minimum guideline below is followed:

- The producer has had the necessary rights and permits to log the stated tree species, grades and dimensions within the given timeframe and location
- The producer is fully compliant with all relevant national legislation regarding forest management and the effects of forest management on people and the environment in the county in question
- All taxes and duties have been paid in full
- All statutory declarations and permits from the appropriate authorities have been obtained

Level 5 – Legal and working towards sustainability

To reach Level 5, Level 4 clearly has to have been achieved and then new initiatives taken in order to attain Level 6. The initiatives that will satisfy the Govt still need to be defined by CPET. In the interim it is proposed that the following are effective indicators of producer compliance:

- Completed Pre assessments for FSC/PEFC
- Working with TTF or members of WWF's GTFN
- Have an clearly stated work plan and agreed timetable for achieving certification
- Have an effective Traceability system that is fully functional

Level 6 – Sustainable

There are no globally agreed standards that define sustainability. The definition of 'sustainability' (in a similar manner to legal structures) is dependent on the political, social and cultural values of a particular country. There are however some general guidelines that can be applied regarding what constituents should be included in a sustainability standards:

- Sound legislative and institutional frameworks
- The size of the forest resource
- The health and vitality of forests
- The production functions of forests
- The protection function of forests
- Biodiversity
- Socio-economic, cultural, and spiritual benefits and needs

How certification systems fit with the RPP

The evolution and development of the RPP is driven by the requirements of the TTF's Code of Conduct, UK Govt, the EU FLEGT Action Plan and TTF members own business needs. TTF members have to deal with a range of different certification programmes and schemes. One of the aims of the RPP is to fit these into a manageable framework – with the structure of the framework being strongly influenced by the conditions defined by CPET and the EC over the coming months. Below is a table that provides an overview of how existing certification approaches might fit within the UK Govt three variants (Legal; Legal and working towards sustainable; and Sustainable) and the RPP's various levels.

RPP, potential CPET requirements and other certification programmes

RPP Levels	Requirements	Traceability/Chain-of-custody required	CPET compliant	Accepted certification programmes*
1	TTF Code of Conduct			
2	Risk assessment system established			
3	100% contracts risk assessed			
4	Legal	✓	✓	FSC, PEFC, SMI, CSA, ??, ??
5	Legal and working towards sustainable	✓	✓	FSC, PEFC, SMI, CSA, ??, ??
6	Sustainable	✓	✓	FSC, ??

* Speculative until CPET has defined what complies with the Govt's requirements

Verification

It is intended that a verification organisation is hired to annually assess and verify Signatory progress and compliance. The rigour of verification activities will be dependent on the level at which claims are made with a built in escalation process when non-compliances are identified.

Management reporting

A supporting questionnaire will be developed based on a range of existing questionnaires such as those developed by Purchasing in the Community. All Signatories will need to submit their Management Report for the previous 12 months (or less) by the end January the following year.

It is anticipated that any organisation wishing to be recognised as a Signatory but not prepared to wait until the end-of-year audit will be able to individually organise an individual audit. This will have to be paid for separately and in addition to the end-of-year audit fee.

Objective evidence

A list of documents that represent objective evidence will be developed. The type of objective evidence that will be sought includes certificates of origin, chain-of-custody certificates, and forest management certificates.

Telephone interviews

Failure to meet target compliance dates, inconsistencies identified from the questionnaire or submission of objective evidence will be followed up by questionnaire.

Spot audits

On-site checks will be made in order to check management systems and associated records. Spot audits will be triggered by failure to meet target compliance dates, inconsistencies identified from the questionnaire or submission of objective evidence will be followed up by questionnaire.

Non-compliance

As the system evolves, exactly what constitutes non-compliance and its degree of seriousness will become clear. It is proposed that 2 types of non-compliance are recognised, namely Major and Minor.

Minor non-compliance

Examples of Minor non-compliances could include:

- Failure to hit targets by a small %
- Insufficient objective evidence to support performance level claims
- Occasional minor lapses in the Risk assessment system

Minor non-compliances would result in requests Minor Corrective Action Requests (Minor CAR) being issued to the Signatory, requiring them to correct the problem within a specific time scale – ie 2 months, and provide objective evidence that they had done so.

Major non-compliance

Examples of major non-compliance could include:

- Deliberate flouting of the requirements of the programme
- Lying to the verifiers and TTF
- Consistent failure to meet targets by significant margins
- No continuous improvement

Major non-compliances would result in requests Major Corrective Action Requests (Major CAR) being issued to the Signatory requiring them to correct the problem within a short but specified time scale – ie 2 weeks. Objective evidence would need to be provided to demonstrate that this was the case and this might well be backed up by a site visit.

Major non-compliances threaten the credibility of the whole programme, the TTF and credibility and effort that all other Signatories have put into the programme. It is proposed that when any Major CAR is issued, all other RPP Signatories are informed about which company has received it and why. It is not proposed that this information be placed in the public domain.

Failure to close out a Major CAR within the required time scale will result in the Signatory being requested to leave the programme. If the Signatory refuses to depart voluntarily, the Arbitration process detailed in the Code of Conduct will be instituted.

Costs for TTF members

There are costs associated with the assessment of compliance with the policy. These costs will be met directly by Signatories to the new Responsible Purchasing Policy and principally go towards paying for an established auditing body to annually assess compliance.

The level of costs will be proportionate to the degree of compliance testing activity necessary. Annual costs are expected to range from between GBP 300–800.

Additional verification work that needs to be carried out as the result of the issuing of Corrective Action Requests will result in additional costs for the 'failing' Signatory. As already stated non-members TTF who wish to become part of the programme will have to pay significantly more.

If the system is also made into an 'online' offering then there will be additional costs to be met but these can be offset again management and admin costs associated with managing a paper based system.

Supporting documentation for Signatories

This is documentation that will be supplied by the TTF to companies that wish to become part of the programme.

- Details of management system requirements – why, who, what, when, where and how plus an information of the type of objective evidence that will be required
- An overview document for the public describing the system and the companies commitments

Supporting documentation to be created by Signatories

This is documentation that companies who have signed up to the programme will be required to produce.

- A printed Responsible Purchasing Policy which will be available for the public
- A documented Risk Assessment Procedure for verifiers to check

Annual completed management reports and copies of supporting objective evidence, as required

IT systems

To facilitate the implementation of the risk assessment process, the TTF is considering an 'on-line' offering. If this development goes ahead suppliers would complete questionnaires online and the information would be captured in a secure and confidential database for simple administration and reporting.