

Good
Wood,

A practical, industry-oriented guide to **excluding illegal & other unwanted wood** from your supply chain

Good
Business



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Preface

Good Wood, Good Business is a guide to how you can ensure you only have “Good Wood” in your supply chain. It is written mainly for CEOs or senior managers of companies that produce and/or supply wood products to retail or other end-use markets such as the construction industry. It also provides useful information for their customers because it will help them to understand better what suppliers must do to supply them with what they need. If you are a retailer or end user, reading this booklet will help you judge whether your suppliers are taking appropriate action to exclude illegal and other unwanted wood from your supply chain.



"Since 1999, Kwantum has worked actively to exclude all illegal and other unwanted wood from our garden furniture. It was not easy, but within two years all of our products came from known, legal forest operations and since spring 2002 we have only stocked garden furniture from FSC certified forests. To survive and grow, any wood products retailer should take control of its wood supply chain – Good Wood, Good Business explains exactly how to do that."

Eric Coorens
CEO, Kwantum Group

"True sustainable development is about finding competitive products from supply chains where every one in that chain benefits; a tough challenge for anyone – but especially for tropical timber producers. As a retailer implementing a purchasing policy that restricts our wood products to independently certified sources, we are concerned that our product range is not only restricted but we are also denying forest regions who are not up to the high standards required for certification an income to finance improvements required to achieve certification. That is where the TFT comes in. What makes the TFT unique are the people; they have a passion for forests, for products and for good commerce. No environmental policy of any major retailer who relies on tropical wood would be complete without a commitment to the TFT."

Alan Knight
Head of Sustainability, Kingfisher

"When it comes to Good Wood, it is not just about linking business with responsible forest management. It's also about thinking about future generations. As a company we feel an obligation to help make the world a better place and we do have the power to make a difference. Supporting the TFT and getting Good Wood into our supply chain is our small contribution. Other companies can do the same by using Good Wood, Good Business"

Kim Nøhr Skibsted
Communications Manager, JYSK



Summary

We propose a Wood Control System consisting of seven elements to guarantee that your company only uses Good Wood:



Element 1

A Wood Policy that identifies which wood is and is not acceptable;

Element 2

A procurement program that ensures the wood used in your products is in accordance with your Wood Policy;

Element 3

Chain of Custody (COC) systems throughout your supply chain and in the forests where the wood comes from;

Element 4

Wood Origin Control (WOC) procedures to control the wood that enters the supply chain;

Element 5

An internal audit system;

Element 6

An independent third party audit process to verify what you're doing; and

Element 7

A reporting system that informs stakeholders of your progress.

Creating this system

won't be easy, but it

will bring benefits.

This booklet sets out

a six-step process to

develop a Wood Control

System and identifies

the difficulties to be

overcome at each stage:



Step 1

Build a Strong Team

Appoint a project leader with senior management experience and authority, and create an internal audit team to create the necessary systems and procedures. They must all be of the highest integrity and have complete backing from the top of the company.

Watch out for: choosing the right people; corruption

Step 2

Develop a Communications Program

This project requires you to use expertise of stakeholders outside the company and will require their support. You must understand whom to consult, and must communicate with them throughout the project, making sure you are open about what you have achieved and the obstacles you face.

Watch out for: overclaiming; distributing confidential information

Step 3

Determine your Baseline Supply Chain

You need to build a complete picture of your existing supply chain, from the forest to your products. This will be difficult and will need rigorous investigation on the ground. The aim is to establish not only the connections in your supply chain, but also a clear view on the quality of your suppliers, the location and nature of the original forest sources, and your standing in relation to your suppliers.

Watch out for: obstruction, deception and deliberate confusion; your frustration, disillusionment and lack of leverage

Step 4

Develop a Wood Policy

The knowledge you gather about your supply chain will allow you to develop a policy with realistic targets. You need to consult widely to ensure the commitments are appropriate, demanding but achievable.

Watch out for: inappropriate targets which you stick to rigidly; losing objectivity

Step 5

Taking Action

Implementing the policy requires you to:

- 1 Identify appropriate supply chain partners
- 2 Ensure Chain of Custody (COC) systems are in place in the forests and at each point in the supply chain
- 3 Ensure Wood Origin Control (WOC) systems are in place in all wood processing facilities
- 4 Use the internal audit team to monitor progress
- 5 Have independent auditors verify your internal procedures
- 6 Report progress – and lack of it

Watch out for: false documents; false promises; flagging commitment; outsourcing responsibility

Step 6

Achieving the Targets

This can be a complex and exhausting process. But it is important to maintain vigilance, to update policies and to monitor supply chain conditions constantly. And it is important to maintain transparency so that stakeholders can continue to see what is happening.

Watch out for: claiming too much, too soon; relaxing

Introduction

There are many reasons why your company might want to use Good Wood¹:

- > You don't want to do or support anything illegal;
- > you don't want to damage the environment or people's lives;
- > you want to secure your future raw material supply;
- > you want to increase your market share by proving your products are legal or from well managed forests;
- > you are afraid of losing market share if you can't prove your products are legal or from well managed forests;
- > you expect tougher regulation that will require you to prove you are excluding illegal and other unwanted wood; or
- > your customers require it.

Whatever the reasons, you need to get Good Wood into your supply chain in a secure system that gives you maximum assurance that no illegal or other unwanted wood can infiltrate.

Good Wood, Good Business is a guide to help you do that. It's written for practical people by practical people who have done it and who know it works.² *We are not trying to convince you that excluding illegal and other unwanted wood is good for your business.* We assume you already understand that and have made the decision to do something about it.

What you need now is guidance on how to do it. Here it is.

¹ Annex 1: *What is Good Wood?* on page 26 provides guidance on how you may wish to define Good Wood within your Wood Policy. In simplified terms, Good Wood is used throughout this guidebook to mean wood that can be verified as complying with all legal requirements or from well managed forest sources.

² Annex 2: *The TFT Story* page 28

Phase 1 understanding the task ahead

In embarking on any project you need to understand the task ahead. You need a goal and a plan to achieve it. You need to know the difficulties and how to overcome them.

Your Goal – what you need to do

Your ultimate goal is to be able to trace the wood in any of your Good Wood products back through the manufacturing process to the actual stump in the certified forest from which it was legally harvested. To do this, you need a Wood Control System that gives you the best possible confidence that the wood in your product does in fact come from the tree that previously stood on that spot. Your system must have no leaks and it must minimize the risk that illegal or other unwanted wood could slip into your products – it must be secure.

Your Wood Control System has seven key elements:

Element 1

A Wood Policy that identifies which wood is and is not acceptable in your products;

Element 2

A targeted procurement program that ensures the wood used in your products is in accordance with your Wood Policy;

Element 3

Chain of Custody (COC) systems throughout your supply chain – in mills and in the forests from which the wood comes;

Element 4

Wood Origin Control (WOC) procedures to control the wood entering the supply chain;

Element 5

Your own internal audit system to make sure the system is secure;

Element 6

An independent third party audit process to verify what you're doing; and

Element 7

A reporting system that informs stakeholders of your progress.

How many of these key elements do you already have in place? Do you have a Wood Policy? What action do you take to implement it? Take a brief "reconnaissance" look at what you already know about your supply chain. Do you know exactly which forests your wood comes from? Do you have real confidence that the wood in your products is legal? Do all or only some of your supply chain partners already have functional, third party audited COC and WOC systems in place to verify their claims? Knowing where you are today helps you work out where you need to go tomorrow and what you need to do to get there – it helps you define your goal and your plan for achieving it. Best of all, an early appraisal of your current Wood Control System against the seven key elements will help your senior management gain a better understanding of exactly what they are getting into before starting. If your current Wood Control System lacks all or any of these elements, then setting them up can seem quite daunting. Yet in reality, if you work through a structured step-wise plan and, providing you're systematic, you can do it.

The Plan – how you're going to do it

Getting these seven critical elements in place is a major project, which we suggest has six steps:

Step 1

Build a Strong Team;

Step 2

Develop a Communications Program;

Step 3

Determine your Baseline Supply Chain;

Step 4

Develop a Wood Policy;

Step 5

Taking action; and

Step 6

Achieving the Targets.

What to watch out for in Phase 1

Before you start, you need to understand two key points:

- 1 This WILL change the nature of your business, but at this stage it is hard to know exactly how dramatically. The structure of your supply chain may change. The price of your final product may increase because your Good Wood costs more than illegal or unwanted wood. There are potential cost reductions as well, for example from increased recoveries (see *Box 1* overleaf: *Does legal wood cost more?*), so it is not certain that your products will be more expensive, but you should think about your reaction if that turns out to be the case. Will you stop the program and continue using illegal or less preferred wood because that's what everyone else is doing and you can't afford to be priced out of the market?

Customers perceptions of you will certainly change if you can prove you're taking the initiative to sell only Good Wood. In fact your whole customer base may change because you will probably gain business from customers who include 'environmental quality' as a key element in their buying decision. You may lose customers who would rather pay less for potentially illegal product, although more and more customers are rejecting this approach; seeking cost reductions elsewhere to compensate for higher raw material costs.

You need to think all this through. Before you embark on this project, you have to be determined to get to the final goal. If not, you're better off not starting because:

- 2 It WILL be hard and complex work requiring tough decisions. If you're not in it for the long haul or you're not prepared to take the tough decisions, don't start. Hopefully, you are prepared to go for it. In that case, don't raise expectations for an early turnaround or a smooth transition to Good Wood, because that's not going to happen. You only risk disillusioning staff and customers if you miss deadlines or pull out halfway through.

Phase 2

implementing the plan

Having decided to go for it, it's time to start the hard work and begin the six-step plan.

What to watch out for in Phase 2

Think creatively and be pragmatic.

Reading this guide can be overwhelming, especially if you're a small company or even if you're a big company but have few resources allocated to this aspect of your business. By the time you reach Step 5, you might think "How on earth am I going to do all this?" and conclude that the guide is not for you. There is no denying that the steps required can appear daunting – employing an internal audit team may be beyond the capacity of some companies; checking stumps in forests, even occasionally, sounds like a nice idea but how, when and where? Getting 100% of your suppliers COC certified and implementing wood origin control procedures may take years.

Difficult doesn't mean impossible and humans are very creative and capable of developing and implementing pragmatic solutions to complex problems. The guide sets out a framework by which you can achieve your goal yourself by implementing 100% of the step-wise process. Yet it is important to remember just that – it's a framework – and within that framework there is much room for creativity and pragmatism to implement a Wood Control System that makes sense for your company based on your size, your resources, the complexity of your supply chain and many other factors that may make it impossible for you to do all these things yourself in exactly the way recommended in the guide. So remember in reading the guide be pragmatic and creative and develop your own solutions that make sense for your company's drive to achieve your ultimate goal of being able to verifiably prove you have excluded illegal and other unwanted wood from your supply chain.



Box 1

Does Legal Wood Cost More?

Legal wood often **does** cost more because all taxes and royalties have been paid in accordance with a nation's laws. Exactly how much more it costs is difficult to say but it can vary widely depending on how many bribes and 'fees' have had to be paid by the illegal wood trader to secure the stock. A general rule of thumb is between 10 and 15%.

Companies that suddenly find out they are using illegal wood are always worried about taking action to exclude it because they fear the price of their finished product will rise, making them uncompetitive against competitors that still use illegal wood. These fears are often unjustified because there are cost reductions to be had from implementing proper wood handling procedures that make processing facilities more efficient and by using good quality wood. Illegal wood often sits in the forest for many months, even years so by the time it reaches processing facilities its quality may have deteriorated. The table below shows a real example of recovery differences achieved in wood processing facilities in Vietnam simply by using fresh cut legal logs. Though legal logs cost US\$15/m³ or 8% more than illegal logs, because they were better quality, they had higher recovery so sawn timber costs

were US\$62.50/m³ or 16% lower.

These are very real and highly significant cost reductions and many people fail to consider these benefits when worrying about whether they should go legal.

COC systems make processing facilities more efficient because they demand a smooth flow of materials through the processing line where previously this may not have existed. In practice, COC systems generally mean a cleaner and safer work environment and a greater focus on recoveries and efficiencies. COC systems tell companies how much wood they lose to waste and it can be quite dramatic. COC systems often therefore lead to more careful raw material usage and combined with more efficient production systems and happier, safer workers, can yield significant production cost reductions.

Regardless of cost reductions, the forces demanding legality are increasing and soon whole sectors will need to prove legality to meet regulatory requirements as much as to secure a 'social' licence to trade. Secure the cost reductions now to compensate for the increased raw materials costs and your business will be in good shape in the future regulatory and Corporate Social Responsibility environment.

ILLEGAL LOG			LEGAL LOG		
log price (US\$/m ³)	Recovery %	Sawn timber equivalent cost (US\$/m ³)	Log price (US\$/m ³)	Recovery %	Sawn timber equivalent cost (US\$/m ³)
185	40	462.50	200	50	400

The six-step plan to getting Good Wood

Step 1

Build a Strong Team



> Choose a Project Leader

You need to make a senior person in your company responsible for the project. It's a serious project that will require tough decisions that can only be taken by the CEO or a nominated senior manager. If you don't take the responsibility yourself, you need to delegate it to someone you can trust that has a proven record of delivering and knows your business inside out. This latter point is critically important because internal systems will need to change and adapt. Your company's relationships with supply chain partners will change as well. Whoever you choose to lead the project will need to command respect and authority inside and outside your company. Only someone that understands your business deeply will be able to judge the trade-offs and determine the best way forward when obstacles arise. Ideally the Project Leader will have a strong knowledge of the international wood trade and of forestry issues in the countries where the wood for your products originates. If the Project Leader doesn't have this background, they must be smart enough and have a strong enough analytical mind to develop the knowledge quickly.

Choose your team wisely and give them complete and total backing. The whole project will be compromised if you fail to show leadership and support.

Your Project Leader must:

- 1 Develop a Work Plan with clear milestones. An example is shown on page 30;
- 2 Train, support or if necessary recruit an Internal Audit Team to implement the Work Plan;
- 3 Recruit other staff as necessary;
- 4 "Sell" the project and Work Plan internally and to supply chain partners, making clear what your company expects and what the benefits will be; and
- 5 Maintain communications with all staff and external stakeholders to update them on progress.

Establish an Internal Audit Team

Your Project Leader will need to rely on a team to do the legwork which will achieve the Work Plan targets. The **Internal Audit Team (IAT)** will go into suppliers' sites to push change and monitor progress. The IAT should be led by a strong individual who understands the whole rationale behind the project.

A similarly intelligent, diligent and committed team is needed to support the IAT Leader. The size of the team will depend on the scale of your operations and on how much you choose to rely on external service providers to do the work for you. The appropriate structure for your business will very much depend on the existing structure and competencies, as well as financial resources.

"Choose your team wisely and give them complete and total backing."

The job of the IAT is to:

- 1 Monitor the implementation of Chain of Custody (COC) systems in all processing plants in your supply chain (i.e. your own sites and any belonging to supply chain partners);
- 2 Establish and monitor a Wood Origin Control (WOC) system to audit wood origin data and ensure that only wood from the 'right' forests is entering your supply chain. See Box 2 for an explanation of the difference between COC and WOC;
- 3 Maintain close communications with the Project Leader.

Depending on the nature of the relationship with your supply chain partners, you may choose to help them to implement COC systems. So your IAT may also have to:

- 4 Design a COC system for supply chain partners and train them in its implementation.

What to watch out for in Step 1

Choosing the right Project Leader

It is impossible to overstate the importance of choosing a Project Leader with all of the qualities identified above. The project will founder if the Project Leader isn't up to the task, doesn't understand or, worse, doesn't embrace the project goal; lacks vision or isn't prepared to follow through on the hard work that will be required.

Corruption

Corruption is widespread in the international wood trade and anyone attempting to exclude illegal wood will sooner or later be

offered 'incentives' to 'look the other way'.

Bribery sustains the illegal trade. So much money is being made that there is no shortage of funds to buy people off. The IAT will be particularly exposed to this threat, so it is critical that the IAT Leader and team members are of the highest integrity.

'Bad' wood can enter the supply chain in many and varied ways and places. But it can't infiltrate on its own. It needs an unscrupulous person to put it there. Once it gets into your supply chain, unscrupulous people within your own company or working for your partners can hide its presence. So your Project Leader and IAT must be experienced in the business and have a finely-tuned sense of who can and can't be trusted. If they don't start with that experience, they need to be intelligent enough to develop it quickly. Failure to be brutally suspicious of everyone until they have proven they can be trusted will result in bad wood entering your supply chain at some point, resulting in project failure.

Box 2

Distinction between COC and WOC

Many people assume that if a processing facility is COC certified, then the wood it uses must be legal. This is not necessarily the case. COC systems are material handling systems that allow you to track the wood in a product back to a specific raw material input, for example a log. If the log was legally harvested and transported, excellent; but if the log is illegal, the COC system can only verify that your product was produced from that log, it cannot confer legality.

WOC systems on the other hand are document systems that focus solely on verifying the log's legality. The log must be accompanied by a verifiable set of legal documents that can demonstrate that the log comes from where its supplier says it does and that it was harvested with full legal compliance. It's one thing to have a set of documents for a cargo of logs that are about to enter a COC certified processing facility, but do the documents match the cargo? Do they contain sufficient information to verify that the logs were legally harvested and transported to where they are now? Are there logs in the cargo that are not listed in the documents?

If you want to prove legality, having a narrowly defined COC system that simply tracks wood flows through a processing facility is insufficient. To verify legality, you need WOC systems that work in tandem with certified COC systems.
(see Step 5: Taking Action)

Step 2

Develop a Communications Program

> The issues surrounding illegal wood are becoming more widely known. It is important that you differentiate your company – which is taking active steps to only work with Good Wood – from others in the industry that are yet to move. At the same time, if you are going to build a successful program, you need to listen to and learn from people who know more about the environmental and social context in which you operate than you do. For both these reasons you need a communications program.

Open and transparent dialogue is absolutely critical

Your communications program must be founded on the principles of openness and transparency. You must adopt a philosophy of ‘I’ve got nothing to hide’ (except of course commercially confidential company information). If people think you’re hiding something they will assume you have illegal or unwanted wood in your products, that your commitment is superficial and you’re really just ‘greenwashing’ your products whilst in practice doing nothing to ensure the bad wood is eliminated.

Map your stakeholders

You need to understand who you need to talk to. Who are the campaign groups, trade associations, companies, etc. that are interested in and can contribute to your efforts to get Good Wood in and keep bad wood out? You can’t communicate unless you know who you need to communicate with.

Look, listen and learn

Meet your stakeholders and hear what they’ve got to say about you, your company and the places you get wood from. At first, this might be difficult and painful, but work through the process, remain open and transparent and accept what people say. If you can do this, you will start to develop a good relationship with the people who can be most helpful. You are also likely to learn a great deal about things that have a major impact on your business and (most importantly) on your ability to achieve your goal.

Make your Work Plan available to everyone with an interest

The easiest way to signal your intention to be open and transparent is to make your Work Plan available to everyone with an interest in your progress (your stakeholders). This should include NGOs, your shareholders, your customers and your supply chain partners. Clearly you don’t want your Work Plan in your competitors’ hands so be prudent in deciding who to send it to, though you must accept the possibility that your Work Plan might be seen by a competitor.

Send regular Progress Reports

The key element of your communications program will be Progress Reports to stakeholders from the Project Leader. You should send a Progress Report at least every quarter, but more frequently in the early part of the project because this will establish an open dialogue with stakeholders, helping to establish trust.

Each Progress Report should detail achievements against Work Plan milestones. Be frank and open about the problems encountered, constraints uncovered, and targets missed. The Report should highlight your thinking on how you will overcome these problems.

Seek advice, guidance and third party verification

The communications program should be a two-way process. Progress Reports should seek to stimulate others to give you advice and guidance on ways forward. Whenever possible, invite stakeholders to visit your company to see what you're doing. If they do, they will see that you really are taking proactive measures, which will help to dispel any fears of greenwashing.

When they visit, open up your operation (without disclosing confidential company information) so they can better understand the difficulties you're facing in working through the project. If they understand your constraints, they will be better placed to offer useful advice. They will also be better placed to understand if you miss a Work Plan milestone, which is pretty well inevitable at some point. The better the understanding of your predicament, the less likely they will be to criticise you for failing to hit a target.

What to watch out for in Step 2

Never overstate your achievements

Overstating achievements amounts to greenwashing. If stakeholders find that you haven't done what you claim, they will question everything else you tell them. When writing Progress Reports, be honest at all times. Never over-state your achievements – such claims will come back to haunt you.

Confidential information

Stakeholders don't expect to see commercially confidential information. You don't have to be so open that you give away confidential information such as pricing, so be careful to reveal enough for people to appreciate your progress but not so much that you risk damaging the business.

"You must adopt a philosophy of 'I've got nothing to hide'."



Step 3

Determine your Baseline Supply Chain

> Having established your team and your communications program, the next step is to work out exactly where you are today – just how bad is your supply chain? You might be surprised. It might not be as bad as you fear – for example, some COC systems may already exist. But you must have a clear understanding of where you are before you can work out how to make progress.

All companies know their suppliers but few know their suppliers' suppliers. Often that is seen as confidential information and many suppliers don't readily share it. The further down the supply chain you go, the less you will know. Very few companies know with any certainty from where their wood originally comes but to ensure that you use Good Wood you must know your supply chain intimately. That means knowing everyone in it, how they operate, who supplies them and how they operate, who supplies them and so on. Ultimately it means knowing where the raw wood for your products comes from – which stump in which forest. It means knowing whether those forests should be harvested at all – are they designated production or protection or High Conservation Value Forests? (see Annex 1 for definitions). If they are designated as production forests, it means knowing whether the wood has been harvested legally and how well the forests are managed. It means knowing whether your supply chain partners have the necessary systems in place to prove that the wood comes from where they say it does – do they have functioning COC and WOC systems?

"Ultimately it means knowing where the raw wood for your products comes from – which stump in which forest."

How to find out who supplies who

Ultimately you're going to have to sit down and talk with your supply chain partners face to face, but sending suppliers a simple questionnaire is a good way to start. Such questionnaires are not always answered correctly, sometimes because your suppliers don't understand what you're asking, occasionally because they deliberately mislead you or conceal information, but often because they're reluctant to tell you who supplies them for fear of being cut out of the supply chain. Your suppliers will often not know who supplies their supplier, just as you don't, so getting back to a specific forest source can be tortuous. Questionnaires therefore usually raise more questions than they answer and you should never stop at this point and assume you have everything under control. Questionnaires should always be followed up by face-to-face meetings to dig more deeply, to verify and cross-check what you've been told.

Finding the gaps

Plot the information you manage to gather as shown in *Figure 1*. The gaps will highlight where you need to get more information. Make it clear to suppliers that withholding information is not a good way to remain a trusted and loyal supplier. Tell them that if their business is sound and they provide you with Good Wood, they do not need to fear being cut out of the supply chain. If they don't supply good product and they don't provide good information in response to your questions, this should raise serious concerns about how they operate and where your wood comes from. It suggests that they probably should not be in your supply chain.



Figure 1 Your Baseline Supply Chain

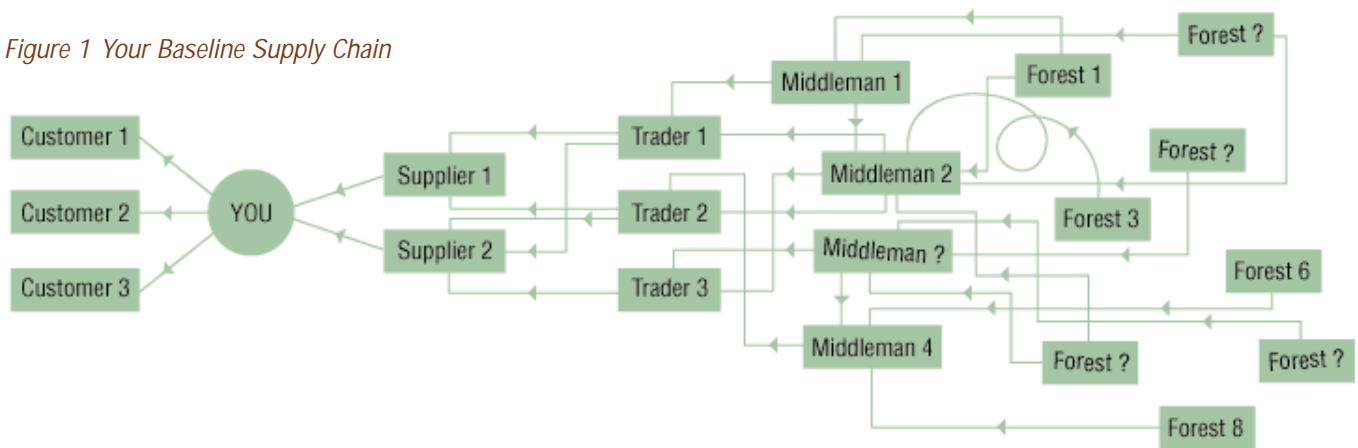


Figure 1 shows how complex and opaque the supply chain becomes the closer you get to the forests. The abundance of middlemen and local traders who traditionally do not maintain systems good enough to prove where their wood comes from, makes it very difficult to locate the actual forest where your wood was harvested. Yet this is the fundamental point of the exercise. Without this information and until proven otherwise, you must assume that your wood could be illegal.

The quality of your supply chain

Now that you have a picture – complete or otherwise – of your supply chain, you can gather detailed information about your suppliers.

How good is your supply chain?

- > Do suppliers have systems that prove where their wood is from?
- > Do they have systems that exclude illegal and other unwanted wood?
- > How good are their systems?
- > Can you trust your suppliers and their systems?
- > Are they audited?
- > Who by?
- > Do the auditors know the context well enough to identify actual or potential leaks?

Where is your wood from?

- > Which country, region, district?
- > From how many forests? Many small operations or from one or two large forests?

- > Which part of which forest?
- > Which stump?

Is the forest being harvested legally?

- > Is there any illegal logging where your wood comes from?
- > Is your wood from an illegal operation?
- > Are there competing ownership claims to the forest's resources?
- > Is there corruption?
- > Is there strong governance, as evidenced by clear forest harvesting laws and regulations?

Are there other significant factors indicating that perhaps the forest should not be harvested?

- > Is the forest in a National Park or some other protected land?
- > Has it been evaluated as a HCVF?

Is the forest being well-managed?

- > If the forest can be harvested, how well is it managed?
- > Are there social and environmental concerns?
- > Has it been certified under a nationally or internationally recognized certification scheme (such as FSC)?³
- > If not, is its management being improved through an active program to achieve such certification?

Other potential concerns:

- > Is your wood being harvested as part of a forest conversion program?

The scale of your supply chain

You also need to know just how much of an impact your business has. If you buy a lot of wood or if your orders make up a significant percentage of your supplier's business, you have leverage and will be in a better position to enforce change.

- > How much wood do you use?
- > How much of your supplier's capacity do you buy?
- > Is your business important to your suppliers?

Answers to these questions – from your own company, your suppliers and their suppliers – allow you to plot the current interactions in your supply chain, and know the environmental quality of the wood being used in your products. If you find you have good answers to these questions, you're in good shape. There will probably be gaps – possibly gaping holes – in the quality of information you can gather. Finding out what you do and don't know in this way tells you your baseline – where you are today – and it's the best and only way to work out what you need to do next.

³ The Forest Stewardship Council (FSC) is an independent, non-profit, non-governmental organisation founded in 1993 by a diverse group of environmental and social organisations, the forestry profession and timber industry from around the world. Other forest certification schemes have been founded since, but the FSC is distinguished by its global reach and broad-based support from many stakeholders including NGOs such as WWF, Friends of the Earth and Greenpeace.



Step 3 continued

Who should you talk to?

- 1 NGOs that are active both in your own country and where your wood products come from. They will often know many of the realities much better than you, or at least have a different perspective and a useful insight into the issues. They will often know the histories of your supply chain partners and this is useful information.
- 2 Supply chain partners, because they will of course know who they buy products from. They might not know from whom their suppliers buy but you can go step by step back down the chain until, it's to be hoped, you reach a forest.
- 3 Local people in the country and region where you think your wood comes from.
- 4 Forest managers.
- 5 Government agencies.
- 6 Certification bodies active where your wood comes from.

Talk to whoever you can to help you develop a good understanding of the context in which you're working. Find out if your supply chain partners are ethical and whether the forests from which they get their raw materials are well managed. Get past rhetoric and beyond people telling you what they think you want to hear. Get details and cross-reference them from as many sources as possible. Find out if there is a big problem with illegal harvesting where you're working, or does the government have it under control? Find out absolutely everything you can.

Once you have all the information in front of you, you will be able to understand what you can and cannot realistically achieve – and how long it will take. Armed with this information and supported by all the contacts you've made through your investigations, you will be able to move to the next step of drafting a sensible policy with clearly defined targets that make sense in the context of your current position.

What to watch out for in Step 3 *Suppliers that don't talk*

It may be difficult to get suppliers to open up with information about who supplies them. Local wood traders or middlemen are particularly nervous about telling you anything because they may fear that you will bypass them and buy directly from the forest. Yet you must persist because you need this information – if they are responsible traders and have good COC systems in place, their businesses should be secure and they should be well placed to supply you. If your supply chain partners don't open up and share information with you, you've got two problems. First, you've got a supplier that doesn't trust you. Second you have a barrier which may prevent you getting back to your source forests.

Through this process you will need to encourage and cajole some suppliers to open up, so it is important to understand that they do have justifiable fears – losing your business. You need to explain to them that the only way to keep your business is to prove they're not trading in illegal or unwanted wood. In the end, if they don't open up and tell you what you need to

know, they are unreliable partners and should be excluded from your supply chain wherever possible.

Lies, corruption, lies, smoke and mirrors and more lies

If your suppliers are trading in bad wood and see that their business with you will end if you find out, they will lie to you. There is nothing more certain. The international wood business is full of traders and middlemen working in a world of bribes, corruption, smoke and mirrors and illegal practices. In many contexts, they are the local mafia. Be ready to question every tiny detail that you are told – the chances are that they are lies.

It is often incredibly difficult to know when you are being lied to but this is where it's critical to have a Project Leader or IAT Leader experienced in the international wood trade and with the utmost integrity. Your team should be ready to say "prove it" to any claim of legality, and that has to go beyond merely providing documentation. If your supply chain partners are operating legally or in certified wood, they WILL have documents to prove it. But documents can be forged and falsified, so illegal supplies may also be supported by apparently valid documentation. There will always be someone listed on the documents that you can check next.

- 1 Did the forest management company listed on the Bill of Lading really sell timber to the trader who sold it to your supplier's factory? Check.
- 2 If so, did that company have a legal right to harvest the logs? Check.

"Go in with your eyes wide open and be prepared for the worst."

3 Was there a COC system in place? Check.

4 Can they take you to the stump? Check.

It can be laborious and time consuming, but if you take a determined investigative approach and adopt a position that everyone is lying until proven otherwise, you can reach the truth.

The golden rule is – verify and cross check at all times. Remember – verify and cross check...verify and cross check...

Lack of leverage

If you are a small company, it's going to be difficult to get answers to your questions. If your business doesn't make up a significant proportion of your supplier's business, you're likely to be brushed off.

You might even find your supplier is prepared to admit he doesn't know where your wood comes from, but will show little interest in doing anything about it because losing your order will have little impact on his overall business. You might be told to "take it or leave it". Confronted by this situation, you will have to look elsewhere to find a supplier that does trade in Good Wood and has the systems in place to prove it. This exercise often leads nowhere because the industry norm, at least in some parts of the world, means you will only find more suppliers with the same attitude.

Frustration and disillusionment

Such dead ends breed frustration and disillusionment – you want to use Good Wood, but it seems impossible to get it. If you reach this point, step back and take a deep breath. There is always a way forward – you should never give up.

The smaller your company, the more difficult it will be but difficult doesn't have to mean impossible.

You may be able to break through by joining forces with other companies, perhaps through a trade association, to gain greater leverage with collective buying power. Otherwise you need to take stock of the situation. This is the time to call in external advice, for example from stakeholders such as NGOs or accredited certifiers, consultancies or associations of companies working on this very issue (such as the TFT). Between them, they will know suppliers striving to deal only in Good Wood – they do exist, you just have to know where to find them.

Switching suppliers makes your project more complex, but if you're going to reach your goal, you may have to face that prospect.

You can switch to smaller suppliers, concentrating your orders on one factory and thereby gaining greater leverage because you will be more important to them than to larger suppliers. There is a risk that by going to small factories you may end up compromising other aspects of your product – quality or delivery schedule for example. But there are good small operators and with time you can work with them to improve their performance.

Ultimately, you may have to switch to a completely different country or a different species of wood to achieve your goal.

Horror stories

Be prepared for bad news – very bad news. You might just find that one or more of your supply chain partners, people that neither you nor your direct supplier knew were involved, are guilty of extremely poor practices. Some wood suppliers are famous in their own countries for very bad practices indeed, with allegations of murder not unknown. Such is the nature of parts of the international wood trade.

Alternatively, you might find that your wood was harvested illegally from a National Park or some other form of protected area or high conservation value forest. Your products might be indirectly responsible for large-scale forest loss in some of the world's remaining tropical rainforests.

You might find that though your wood comes from legally harvested areas the forest is being completely cleared to plant oil palm plantations or some other industrial crop. Even though this is 100% legal some of your customers will not think that is such good news.

Go in with your eyes wide open and be prepared for the worst. There are bad things happening in the forest industry around the world, particularly in the tropics, so be prepared. If you do find some disturbing facts, don't cover them up. You need to develop a sensible and pragmatic plan to deal with whatever you find and this means confronting the truth and consulting stakeholders to work out how to deal with it.

Step 4

Develop a Wood Policy



You now know your supply chain baseline – horror stories and all. That tells you where you stand, so you can now set a clear policy with sensible targets for where you want to be.

Don't panic!

Setting clear targets makes you accountable, it doesn't have to mean making yourself a target. Companies often panic when faced with the challenge of setting policies with specific targets. The panic stems from not understanding the context in which you operate. If you don't have good information you won't know what's possible. If you don't know what's possible, you won't know what is or isn't a realistic target, so you will be afraid of being lumbered with a target you can't achieve. Remember, having gone through Step 3, you are now armed with all the useful information you need and you've established a strong network of contacts and experts who do understand and support what you're trying to do. So you can set realistic policies and targets in the knowledge that you're not operating in an information vacuum.

Drafting your policy

Your policy must be clear and transparent so everyone who reads it can easily understand what you're trying to achieve. It needs to make a clear statement of your company vision. It must define what wood you will and will not accept in your supply chain. And it must define what you will and will not accept while you make progress towards that ultimate target. It must also contain specific milestones against which you can monitor progress.

As a minimum, you should commit to excluding all illegal wood. Ultimately you will probably want to be able to say that you are committed to trading in products that come from well-managed forests that are credibly certified as such, and it means setting a target date for when you will only use certified Good Wood. More guidance on how you may wish to define Good Wood is given in Annex 1 on page 26.

Box 3 illustrates a sample policy, based on some key ingredients:

- 1 there should be a commitment to exclude all illegal wood by a given date;
- 2 there should be a commitment to have all your products produced in third party audited COC facilities by a specified date;
- 3 the policy should specify increasing proportions of credibly certified wood each year.
- 4 Lastly, the policy should be clearly dated so all progress can be measured from that point on.

Talk to everyone again

Once you have a draft policy, discuss and review it with all those you worked with in Step 3. You need to know if they think you're aiming too high or too low. Refine it based on their input, then you can formalize and publicize it.

Formalizing the policy

Having a clear policy with transparent targets is a significant achievement. To get to this stage, you've done a lot of hard work. You have analysed your baseline supply



Box 3

The Good Wood Products Company Wood Policy

May 24th, 2002

'Good Wood Products Company commits itself to the (identified certification system) as the only globally acceptable standard of good forest management.

By (month), 200v, we will only use wood from (x) certified forests. To that point we will prioritize our timber buying to companies that are clearly moving toward (x) certification through an independent program such as that supported by the Tropical Forest Trust.

Good Wood Products Company will exclude all illegal wood and all wood from dam clearance and other forest conversion projects from its supply chain by (month), 200x.

By (month), 200w, all wood products traded by Good Wood Products Company will be produced in COC certified factories.'

"Setting clear targets makes you accountable, it doesn't have to mean making yourself a target"

chain by consulting a wide range of people, and you have committed to a vision for your company. You deserve credit for that. But more importantly, you need everyone's buy-in, both within your company and externally. They will be critical to your capacity to achieve the policy targets. Those inside your company are going to have to change their way of working and be diligent in implementing the policy. Many people outside the company, like your supply chain partners, are going to have to change the way they work too if you're going to be able to achieve your targets, so they need to see what you're shooting for as well. Everyone and anyone who has some influence on whether you achieve your targets must be advised of your policy and must buy into it.

What to watch out for in Step 4

Setting targets too high or too low

Setting unrealistic targets isn't going to help you. If they're too low, your stakeholders will feel you're not doing enough – you're greenwashing. If you aim too high, your stakeholders will gasp and wonder how you're going to achieve them, but will probably pat you on the back for being ambitious. Your staff will gasp too but it will be in disbelief that you're asking them to do the impossible. Make sure your targets make sense for everyone.

Be ready to revise them

Policies don't have to be set in stone. If you find the targets are unrealistic – too high or too low – be prepared to admit it, consult widely, and then revise them. Don't revise them without consultation. Having set high targets, any move to lower the bar will seem

like you're walking away from your commitment. So consult, consult, consult, then your stakeholders will be completely abreast of the issues and realities you're facing.

Stay objective, think clearly

Throughout the process of determining your supply chain baseline and then drafting a policy to put it right, the chances are that you will hear some awful stories – forests destroyed, people treated badly, even murdered. Take these things on board and make tough decisions to get away from the worst situations, but remain objective at all times. Make sure the stories have some basis in fact and if they do, act quickly and decisively to get away from those sources. But always think clearly through all the issues to make sure you develop a policy and program that makes sense economically, environmentally and socially for everyone involved. Remember that walking away from somewhere simply because bad things are happening is not always the best decision. It might be right, but there is a fine line between walking away – after which you have no influence – and staying engaged with the only supplier in a whole region that wants to do the right thing.

It's a difficult balance and only by consulting widely through your communications program will you be able to make a sensible objective judgement.

Step 5

Taking Action



> Your Wood Control System is taking shape – you’re getting somewhere! You have a Wood Policy (Element 1); an internal audit system (Element 5) and a communications program (Element 7). It’s time to take action to complete the system. You need a wood procurement program (Element 2); COC systems (Element 3); WOC systems (Element 4) and an independent third party audit process (Element 6).

Element 2

A Targeted Wood Procurement Program

Your Wood Policy defines Good Wood, identifies wood that you will exclude from your supply chain and wood that you are prepared to include as you move towards your 100% Good Wood target. You need a targeted wood procurement program that makes sure the wood you use meets these specifications. The most effective way to do this is to buy the wood yourself. If you do not have forestry knowledge within your company, this is when you will need to acquire some. Talk to forestry experts or NGOs in the country where your wood originates. They will help you identify where it is possible to procure wood that meets your policy’s specifications.

Buying direct from the forest rather than through traders and middlemen allows you to target specific forests that fit your policy. It gives you control over where your wood comes from – you no longer have to depend on others to get it right. But buying wood is difficult and requires specific expertise. It also costs a lot of money and may cause cash flow problems and burdensome

inventories. If you have the resources to do it and it makes sense for your business, this option is the most effective way to guarantee you are complying with your own Wood Policy.

If it’s not possible to buy the wood yourself then you need to work very closely with the supply chain partner that does. It is at this point that your whole project will succeed or fail. This partner must buy wood in accordance with your Wood Policy and must have COC and WOC systems in place to prove it. Wood traders and middlemen seldom have such systems in their own wood handling facilities and prefer to mix wood together – that way illegal and unwanted wood can be mixed and disguised with other wood. So unless they do have good COC and WOC systems in place, you should avoid these people if at all possible. If it’s not possible to exclude them, then you need to make sure they do implement appropriate wood handling systems that allow you to track your wood back to a stump in a forest that fits with your Wood Policy.

It may help to focus purchases on a small number of forests, but this can also be risky. Reducing the number of forests you buy from helps to gain greater leverage over their forest management performance. Your order becomes proportionally more important to them so they are more likely to listen if you ask them to improve forest management practices than if you are an insignificant customer. But it is dangerous to tie yourself to a single source. People move on, and management philosophies change. Forest managers committed today to



"Now the really tough work starts – you have to implement the policy."



operating in accordance with FSC Principles, for example, might be unemployed tomorrow. Alternatively, good companies might be targeted by illegal loggers. Government policies may change. There are innumerable issues that can render a good supplier a bad supplier in a very short time frame. Buying wood from a number of forest areas, preferably in a number of different countries – if that makes sense for your supply chain – reduces the risk that you will be left without good timber to make your product by unforeseen changes impacting on a single forest area.

Element 3 COC systems

To make sure that you are excluding illegal and other unwanted wood as defined in your Wood Policy, you need functioning COC systems at two levels – in the forest where your wood originates and in your own and your supply chain partner's material handling and processing facilities. Having one without the other is meaningless. It means there will be loopholes through which unwanted wood can enter the supply chain. Combining the forest-based system with the systems in the various processing plants allows you to trace any piece of wood back through the chain to the stump in the forest where the log originated.

You will need to work closely with your partners and the forest managers where your wood originates to get the systems implemented. Again, it may make sense to reduce the number of players in your supply chain as well as the number of forest

sources. It might not make sense to buy your product from 50 factories. If you get it from 30, you will have proportionally greater leverage with each individual factory and stand a greater chance of persuading them to implement appropriate systems. On the other hand, if you're a small company and buy your product from only one factory where your order is not terribly important they may not be prepared to implement COC systems. If that's the case, it's time to find a supplier that will.

In the forest

You need a COC system that tracks a log from the door of your or your supply chain partner's processing facility back through the log transport process to the stump from which the log was harvested. Such systems are not commonly implemented but the technology to do so is relatively straightforward and cheap. If such a system doesn't exist but the forest meets your wood policy specifications in every other way, then you need to work with the forest managers to get a system implemented. Without such systems there is a high risk that illegal or unwanted wood will be smuggled in with the Good Wood and your Wood Policy will be compromised.

In the factory

Once the log enters the processing chain, a COC system must operate that identifies where all the components of the log flow. This includes all the wood that ultimately ends up in product as well as all the wood that goes to waste. Without such systems, there is a risk that bad wood could be mixed in with the Good Wood from your selected forests.

A system must exist in every processing facility – from where the log is first broken down (for example in a sawmill) to where the finished product is ultimately packed ready for shipment. If you or your supply chain partners do not have such systems yet, then you must work with them to get them in place according to the target in your Wood Policy.

Your target should be what might be called a **Platinum Star** system where all the wood used in your products comes from forests with fully functioning, third party audited COC systems, and where that wood is being processed in factories with fully functioning, third party audited COC systems.

A **Gold Star** system is an intermediary step where all the processing plants in your supply chain have functioning COC systems yet only some of the forests from where you buy wood have such systems. The forests that do not have such systems must at least accord with your Wood Policy and be known legal operations and you must have full documentation to prove that the wood does come from there. This is still a significant achievement, but the ultimate target must be the Platinum Star level.

Element 4 Wood Origin Control (WOC) procedures to control the wood entering the COC processing facilities

It's one thing to procure wood from a forest and another thing to have only that wood used in processing facilities with functioning COC systems to make your products. You need to implement a WOC system that

Box 4

Certificates of Origin – A quick way to check legality

If your company has a contract to buy finished product made using natural tropical hardwood from a factory anywhere in south East Asia or China, there is a risk that the wood to be used in the product will have been illegally felled in Indonesia. How can you tell?

All log or sawn timber shipments arriving at any port must be supported by a set of documents comprising a Bill of Lading, a Certificate of Origin, a Phytosanitary certificate, a contract and commercial invoice

Step 5 continued

ensures that the right wood enters the right processing plants and is used to make your products. You must be able to prove this fact, with documentation, to anyone that wants to know.

WOC systems check, before processing begins, that the right wood is being used to make your products. If both the forest and the processing facilities have functioning, audited COC systems, then the WOC procedure is straightforward. It is simply a matter of compiling records to show which wood was used to make which products, and ensuring that reliable documents exist in a readily accessible format under your control to verify these facts.

This is what you need to verify that your wood comes from where you say it does:

- 1 Proof that the wood has been harvested and sold by the forest company under legal licence. This would normally include:
 - > a copy of the licence showing that the company has the right to harvest wood from the area in question;
 - > a permit from the relevant forestry authorities giving permission to harvest from a specific area within the forest in that harvesting period;
 - > log lists showing tree number and dimensions and identifying the cutting area within the forest where the log was produced;
 - > It might also include a copy of a Timber Harvesting Plan or equivalent document approved by the forest management authorities, and a copy

of the Forest Management Plan approved by the relevant authorities, that proves the company's right to harvest a particular area.

- 2 If the wood was exported to where your timber is to be processed, there should be:
 - > a Bill of Lading identifying when and by whom the wood was exported;
 - > Contracts of sale showing who the wood was sold to, when, and demonstrating that the exporter legally owned the wood;
 - > a Certificate of Origin stamped by the relevant Government authority;
 - > Customs documentation in the country where the wood originated to show that it was legally exported and that all taxes were paid;
 - > Customs documentation in the country where the wood was imported indicating that the wood was legally imported with all relevant duties paid;
 - > Any relevant transportation certificates indicating that the wood has been transported in full accordance with any laws.

Once this wood enters a processing facility with a functioning COC system, the system will verify that the right wood has been used in the final products. If the processing facilities have COC systems but the forests do not, then it is still possible to ensure that the wood you or your supply chain partners buy ends up in your product. Your WOC procedures should demonstrate that only

this wood is used to make your products. You will not be able to prove that the wood comes from a particular stump until the forest implements COC systems, but if you have a full list of the documents indicated above, you at least have a Gold Star system. Further work with the forest company will eventually lead to a Platinum Star system once the forest implements COC.

Element 6

An Independent Third Party audit process

People will not believe you are doing the right thing until someone they trust tells them it is true. You need to have your systems audited and approved by an independent third party auditor. Under the FSC system, for example, there are a number of accredited COC auditors. You need to contract an accredited auditor to monitor and verify that you are implementing your Wood Policy properly.

If the auditor gives your program the seal of approval, you can market this fact with confidence.

What to watch out for in Step 5

False documents

The international wood trade abounds in false documents. In some countries you can get any 'legal' document on demand, providing you pay the appropriate 'fee'. Your IAT will need to check wood origin control documents very closely. Remember the mantra – verify and cross check, verify and cross check. All documents should carry appropriate stamps from a government issuing authority and should

to prove that the logs have been purchased by the importing party, a summary packing list and a log list.

A quick first check for legality is to look at the Certificate of Origin. It should always be issued by a responsible Government authority such as the local forestry department and not a local Chamber of Commerce. Any Certificate of Origin issued by a Chamber of Commerce should raise serious suspicions over legality and prompt further checking. It should be dated and

stamped with the Government authority stamp. It should describe the shipped volume, of what species, from where, by whom, to whom, on what date, and on which ship.

Even if it's issued by a government authority, there is no guarantee of legality because such documents can be purchased. It is a good start though because you can verify that it has been correctly issued by visiting the government authority office and asking to see the records to prove that the Certificate was in fact issued at that office. If so, there

will be a record. If not, then you can assume someone has a set of stamps in their possession and is issuing false documents. Tracking the record's unique identifying number to the next level of government bureaucracy will tell you whether due taxes and royalties have been collected.

Beyond this simple check there is much more investigative work that can be done, particularly with the log list, but checking who issued your Certificate of Origin will usually uncover 90% of the story.

be clearly printed originals. Documents that have been photocopied many times should not inspire confidence. Any logs bought under documents issued by any Chamber of Commerce should be assumed to be of dubious origin. Box 4 provides information for a quick first step check for legality.

Get back to the stump

The ultimate proof of legality is having a verifiable document chain right back to the stump where the log or sawn timber is alleged to have come from. If the dimensions and species of the stump match those of the log, you're OK. So pursue legality down to this basic level. That doesn't mean you have to go to the forest to check every log, but do it (or get someone else to do) periodically. Random spot checks are a good way to put your suppliers on notice that you're serious, you know the tricks, and you're ready to act against anyone found to be doing the wrong thing.

Promises, promises but no progress

Promises to supply legal documents or to implement COC systems often do not result in action, but are merely delaying tactics in the hope that the issue will go away and it often does as companies turn their attention to other issues. You must be ready to jump on any suppliers that do not move in accordance with their commitments to you, their customer. If your regular IAT monitoring visits indicate slow progress toward COC implementation or a constant failure to provide quality documents as part of your WOC procedures, see what you can do to help. It may simply require more training – your suppliers may not

completely understand what you need. If you do help and there's still slow progress, you have to start asking questions about whether they're serious. You're the best judge of how many chances to give them, but ultimately, if they fail to implement appropriate systems, your suppliers will compromise your chances of achieving your Wood Policy targets. At some point you may be forced to drop otherwise good suppliers if they continually fail to comply with your Wood Policy requirements.

Flagging commitment

If you're a large company that uses a lot of wood, this process could take a long time. If you're a small company with little leverage, it could also take a long time. If it takes too long, you risk losing the benefits from the process. If the long term benefits start slipping away, it may be difficult to maintain motivation within your company for the long, hard journey this project entails.

Your team will undoubtedly uncover many tricks and dirty business dealings through this process. It will sometimes be difficult for your Project Leader, IAT and potentially your whole company to maintain a strong commitment, simply because it can all seem so impossible and opaque. The great breadth of issues and illegal dealings you need to watch out for can drain the team.

As CEO or senior manager, you will need to make sure that achieving Work Plan milestones – even if they come in small steps – is rewarded and celebrated within your company as well as externally.

You must ensure that progress is achieved and that your team is adequately resourced to make sure this is possible.

External assistance

It is a big job and it does require a sharp focus. If you're a small company you may lack the resources to go from Step 1 to Step 6. Even if you're a large, well-resourced company, it may make sense to use external assistance – people who know the wood trade and forestry industry – to help achieve the targets. A list of some organisations that can help is on page 31.

Yet even if you choose to use external assistance, it is critical that you have a project leader within your company to liaise with and direct the external providers. At the end of the day, this process is going to require tough decisions within your company and only you as CEO can take them and make them happen. The external assistance provider can provide advice and guidance, but cannot make the decision for you nor push it through your company to make it policy.

"People will not believe you are doing the right thing until someone they trust tells them it is true."

Step 6

Achieving the Targets

> Depending on the complexity, scale and pre-existing quality of your supply chain, it could take anything from two months to a few years to work through Steps 1 to 5 to get the seven elements of your Wood Control System in place and achieve all your targets to verifiably exclude all illegal and other unwanted wood from your supply chain.

Achieving your targets, even if later than hoped, will be fantastic because excluding illegal and unwanted wood is not easy. It's an achievement that you should be proud of. Having done so, it's time to enjoy the benefits. You can guarantee that you are not using illegal wood because your Wood Control System is being independently audited and verified and this gives you a strong marketing position. You should be able to position your company to take advantage of this.

But you can never relax. You need to stay on top of all the issues that impact your Wood Policy. The bad operators are still out there and there is plenty of money to be made by individuals trading in illegal wood. Without constant vigilance there will always be a risk that someone will slip illegal or unwanted wood into your supply chain. So never close down the systems that allowed you to achieve your targets.

Revise and constantly update your policy and practice. There will always be better ways of achieving the targets. Make sure your supply chain partners do the same thing – constantly check and monitor their progress in maintaining COC certification. In the case of the forests where you buy, stay in contact with everyone you spoke to

and worked with to determine your supply chain baseline. Things change. A forest that is certified today might lose the certificate tomorrow and newly certified forests represent new buying opportunities.

If you can do all these things, you will have achieved what you set out to do when you picked up this booklet. Having worked through a complex and difficult process, you might be wondering whether it was worth the effort. Time will tell, but as regulatory environments become stricter and as your customers become more aware of the issues surrounding global forest loss, it is only a matter of time before proving that you are excluding illegal timber from your supply chain is a prerequisite for doing business.

What to watch out for in Step 6 *Singing too loud, too early*

It's completely understandable that you will be looking for company reputation benefits as soon as you can so that you start reaping some reward from all the hard work. But it will take some time, possibly years, before you achieve your targets. It is important not to start claiming achievements too early. Make sure you really have cemented the achievements firmly in place before you start advertising them to the world. If you sing too loud, too early, you risk being accused of false claims and possibly greenwashing, and will lose potential benefits when you really do achieve targets.

Relaxing

You can never, ever relax. To repeat what was said earlier: you must maintain constant vigilance because the bad systems

will still be out there and there are always people interested in supplementing your wood supply with illegal or other unwanted wood.

Even if the forests that supply you are credibly certified by an internationally recognized system, you can never relax your systems. Make sure those forests continue to practice responsible forestry and responsible trade. Companies dealing in Indonesian FSC certified teak learned this the hard way when the FSC certificates were suspended.

Failing to regulate and monitor your supply chain, even if it's based on certified forests, is therefore a recipe for financial disaster. Take control of your supply chain and never relax.

Concluding remarks

If you've reached this point and have excluded illegal and other unwanted wood from your supply chain – congratulations. No doubt it's been hard work and your company is very different today from when you started.

More likely you've not yet started but have read through *Good Wood, Good Business* to see what's ahead of you. Perhaps you're left scratching your head wondering where to start?

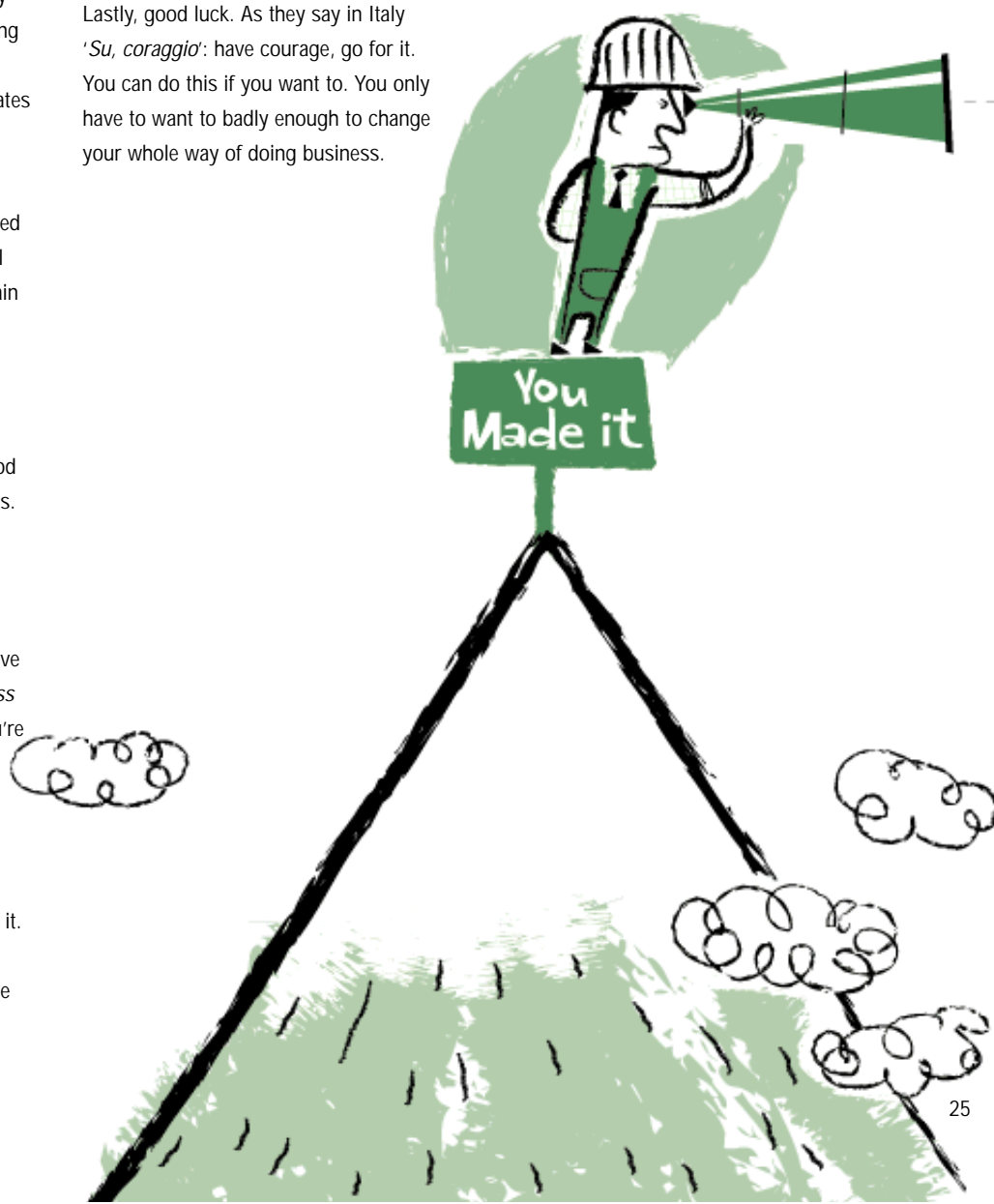
Remember that this will be a tough process but that you will secure market benefits when you have worked through it. At a minimum, you will meet regulatory requirements and will be able to continue in business. More positively, you will differentiate your company from

competitors, with the potential for increasing market share.

Don't forget that help is available and you need not struggle through this process alone, making the same mistakes as everyone else. There are people and companies with experience implementing this process. Use their experience.

Lastly, good luck. As they say in Italy 'Su, coraggio': have courage, go for it. You can do this if you want to. You only have to want badly enough to change your whole way of doing business.

"You can never, ever relax."



Annex 1

What is Good Wood?



Any company's Wood Policy will need first to identify its own definition of Good Wood.

Any definition of Good Wood should start with excluding illegal wood from the supply chain as a minimum step. *Illegal wood* is wood produced in defiance of the laws, rules and regulations of the country of supply. What constitutes illegal wood varies from country to country because laws differ, but it encompasses everything from logging in protected areas, logging in production forests without the legal right to do so, to not paying legally prescribed taxes, fees and royalties. *Legal wood* is wood produced in accordance with the laws, rules and regulations of the country of supply and where all due taxes, royalties and fees have been paid.

For some, such as environmental NGOs, just verifying legality still does not meet their definition of Good Wood because legal wood may still come from destructively managed forests. Yet as a starting point, all wood should at least be legal.

Ultimately, Good Wood should come from verifiably well-managed forests. Everyone has their own perceptions, but there are some generally accepted global standards or certification schemes.

At the international level, efforts to encourage sustainable forest management include various initiatives to develop criteria and indicators through which the sustainability of forest management can be assessed, monitored and reported on at either the national or the local forest management unit level. These initiatives include the criteria and indicators processes of the **International Tropical Timber Organization (ITTO)** and the Pan European, Montreal and Tarapoto intergovernmental processes.

In parallel with these intergovernmental processes, several independent forest certification schemes for assessing standards of good forest management have arisen. However, not all these systems have the same degree of rigor⁴, nor do they command the same broad-based support. Some argue that the only acceptable standard is FSC, and that companies should only trade in FSC wood. Others, such as the TFT, agree that while FSC is the most rigorous and acceptable certification standard existing today, companies must progress toward the ultimate goal by using woods that are not yet FSC certified, simply because there is so little FSC Good Wood available. Moving through a target-driven process that on the one hand avoids truly bad wood (like illegal wood) but that achieves an increasing proportion of Good Wood certified by FSC or any equally rigorous or acceptable certification system that may emerge is better than going out of business. Companies setting policies to move toward the ultimate goal of 100% FSC or equivalent wood therefore need to know what wood they should target as much as what wood they should avoid.

The following definitions provide a guide for that process. Ultimately, excluding wood from any source comes down to making sure you truly know exactly where it DOES come from.

Transition wood is wood produced in a forest that is legal and is implementing a program to achieve certification. Transition wood is a relatively new concept and is used to differentiate wood purchased from companies that have embraced the concept of independent certification and are actively implementing a program, either on their own or with support from some independent body, to achieve it.

⁴ In its new Operational Policy, the World Bank uses independent certification as a screen for determining if it will provide investment support for improved forest management outside critical forest conservation areas – see its web site www.worldbank.org/forestry for details. The Bank's Operational Policy on Forests defines a number of standards that a certification system must meet before it will consider investment support. In reporting progress towards their forest management targets, the World Bank-WWF Alliance for Forest Conservation and Sustainable Use has to date only reported areas that achieved certification under the FSC in Bank client countries. The Alliance considers that, at present, the FSC is the only system that clearly meets all the standards defined in the Bank's Forest Policy and related Alliance guidance notes – see World Bank-WWF Forest Alliance Business Plan 2003-2005.

Other unwanted wood is wood that companies do not want in their supply chains, for ethical, environmental or other reasons. It may include wood from a range of sources such as high conservation value or endangered forests, forest conversion projects, dam clearance projects, wood from specific countries or companies or wood from any source at all that the company chooses not to accept.

i) High Conservation Value Forests, Endangered forests and old growth forests. FSC Principle 9 uses the term High Conservation Value Forests (HCVFs) but doesn't offer practical guidelines to identify or manage them. Experience has shown that in practice this is problematic. As such, many NGOs are becoming increasingly concerned that HCVFs are being harvested, albeit under certified management systems, where in fact they are so rare that they shouldn't be harvested at all. There is therefore much debate and on-going analysis on a global, national and even regional and individual forest-based level to identify the concept more specifically in order to assist everyone involved or concerned about forest management to know exactly what is HCVF and how to ensure appropriate protection.

In the meantime, a number of NGOs, particularly in the US, have called on companies to avoid wood from intact or so-called Endangered Forests (EFs) and, in collaboration with the World Resources Institute, have developed a set of criteria to define them (see www.wri.org/wri). There have in the past been similar concerns for 'old growth' forests, a similarly poorly defined term, though the 'old growth' concept is now incorporated into the EF criteria.

Companies need to know whether there are HCVFs where they source wood. In many cases, particularly in the tropics, the analysis to determine a forest's status with respect to HCVF or EF criteria will not have been completed. Companies may therefore choose to exclude wood from their supply chains from specific regions whilst such an analysis is completed or

may choose to proactively support such an analysis in the regions where they source wood. Such companies will need to identify wood from such forests under the 'other unwanted wood' category, and take active steps to exclude it.

ii) Forest conversion projects

Converting natural forests to agriculture or other land uses is not necessarily illegal, yet it is certainly not 'good forest management' because the forests in question have no prospect of ever being sustainably managed because they are being destroyed along with their inherent biodiversity attributes. In many cases, forest conversion has a significant social impact because indigenous people dependent on natural forests for their subsistence are no longer able to support themselves once the forest is lost.

Companies may therefore choose to exclude wood produced from forest conversion projects, legal or otherwise, and thus wood from such sources may fall into the 'other unwanted wood category'.

iii) Dam clearance projects

One specific type of forest conversion deserves its own specific category – dam clearance projects. Dam projects are the ultimate conversion project because there really is no prospect whatsoever that a forest can return once it has been inundated by floodwaters. This is not to say that dam projects are necessarily bad but any decision to use wood from such a project should be taken in the light of a broad canvassing of views of a specific project's environmental and social merits. There has been much land clearance and illegal logging, particularly in some tropical countries, in the name of dam clearance projects and much wood has entered supply chains with this as its justification when in fact it has been cleared in areas other than dam project catchments.

Companies may therefore choose to exclude wood from specific or all dam clearance projects by placing it in the 'other unwanted wood' category.

iv) Wood from anywhere that should not be in the supply chain

Companies can decide to exclude wood from any source they choose such as supply areas where wood harvesting is associated with human rights violations, underwriting armed conflicts or the breaking of United Nations trade sanctions. Once there is a company policy that defines what is and isn't acceptable then a company can implement systems to actively exclude any wood originating from any unwanted source.

A good way to bring all of this together in a coherent form is to recognise wood origin categories that your company will and will not accept. For example, you might recognise four specific categories in your Wood Policy:

FSC wood source (FSC)

Wood harvested from a forest that is managed in accordance with the FSC standard

Transition wood source (TWS)

Wood harvested from a forest that has an active and credible program to achieve FSC certification, preferably monitored by an independent third party

Known legal wood source (KLS)

Wood harvested from a forest that is known to be 100% legal but is so far not implementing any program to achieve certification.

Sub-category: HCVFs

Sub-category: Forest conversion projects

Sub-category: Dam clearance projects

Sub-category: Wood from problem areas

Unknown wood source (UWS)

Wood from an unknown source, presumably illegal

In determining your baseline supply chain you will identify a wide range of sources under each category/sub-category. In setting your Wood Policy, you can draw the line of acceptance wherever you choose. For example, you may choose to accept FSC, TWS and KLS wood but draw the line to exclude wood from known HCVFs, forest conversion projects, wood from specific problem areas and of course UWS.

Annex 2

The TFT Story

In September 1998 the UK NGO **Global Witness** published firm proof that vast amounts of illegally harvested Cambodian timber were being exported to Vietnam, made into garden furniture and exported to European markets. Campaigning NGOs across Europe picked up on the news and attacked leading retailers stocking the product. The NGOs targeted the biggest retailers in their specific countries because they were the ones most likely to gain media attention. Most of the big retailers had a common supplier, **ScanCom International**.

ScanCom, a Danish company, operated from its base in HCM City and used Contract Manufacturers (CMs) to produce and export its products. The CMs bought all the wood raw material themselves so ScanCom had no control over sources. None of the CMs were COC certified and none had WOC procedures in place to verify raw material input legality. When ScanCom's customers approached it for reassurance that they were not receiving illegal wood, ScanCom was unable to give it. ScanCom faced a worst-case scenario – it had no idea whatsoever where its wood came from and there were serious implications of illegality and even human rights abuses in the country where the wood was allegedly coming from. ScanCom's customers were understandably very concerned about this and demanded that something be done to rectify the situation and quickly. ScanCom had a major problem on its hands – it risked losing its biggest customers and thus its entire business if it was unable to verifiably prove through independent third party audit that it had excluded all illegal wood from its supply chain.

ScanCom knew it lacked the in-house skills to implement COC and WOC systems – at the time it didn't have any idea what they even were. So they contacted **WWF** to seek advice and WWF suggested they engage a consultant to assist, which they did in January 1999. ScanCom also opened a dialogue with the many NGOs that were attacking it and all, without exception said – get yourself FSC wood! At the time, and even still today, there is only a small total

area of FSC certified natural forest in Asia and ScanCom quickly learned that what certified forest there was, was not going to be sufficient to meet its wood needs.

ScanCom and its customers needed to take action quickly to signal their intention to correct this situation. They decided they would work with and therefore needed FSC wood and in December 1998, ScanCom procured all the available volume from an auction at what was then the only FSC certified natural forest in Asia (Deramakot forest, Sabah Malaysia) to show the NGOs and its customers it was serious. They also needed legal, transition wood. They needed COC and WOC systems and they needed to develop a Wood Policy and implement a targeted wood procurement procedure to meet the Wood Policy objectives. ScanCom and its key customers founded the **Tropical Forest Trust** or **TFT** to help them achieve these goals.

The TFT was established in March 1999 with the express purpose of getting more natural forests FSC certified in Asia and helping ScanCom and its customers get wood from those forests into their supply chains whilst at the same time excluding illegal and other unwanted wood. The TFT was also to be the vehicle by which they communicated progress to concerned NGOs.

On establishing and joining the TFT, ScanCom and its customers set themselves the target that by April 1st 2001 – only two years later – they would have COC and WOC systems in place that, through third party independent audit, would verify that they had successfully excluded illegal wood from their supply chain. At the time, ScanCom used over 45 CMs consuming around 80,000m³ of round log input to produce its product – quite a challenge.

In March 1999, ScanCom invited **SGS Vietnam** to undertake a COC pre-assessment in the three factories it had selected to process the FSC wood it had procured. The report painted a very bleak picture for the prospects of ever getting the factories certified. SGS were invited for a full assessment 3 months later, in May

1999, and to the auditor's surprise the three factories (following an intensive training program from ScanCom) were proven to have successfully implemented appropriate systems and were COC certified. These were the first factories COC-certified in Vietnam and the first FSC products to be manufactured in Vietnam.

In July 1999, ScanCom recruited its consultant advisor to be Managing Director of its Vietnam operation and Environmental Manager for the company. The MD also acted as part-time Executive Director of the TFT and was ScanCom's Project Leader responsible for delivering its April 2001 target. The MD recruited an Internal Audit Team (IAT) who set about establishing WOC systems and expanding ScanCom's COC training program for its CMs.

The IAT also set about the task of working out the supply chain baseline – where was the company's wood coming from? Much work was undertaken to secure wood origin documents from ScanCom's supply chain partners – its CMs and the traders that supplied them wood. This proved a gruelling though enlightening exercise. None of the CMs wanted to part with their wood origin documents and in most cases the documents were poorly compiled and inadequate proof of legality. The wood traders and middlemen in the process had no interest in collaborating. ScanCom had hoped that its baseline would lead back to forests in the region that it could then target for TFT assistance. ScanCom and its customers were paying 2% of the FOB price of each piece of non-FSC certified product they traded to the TFT and these funds were to be used to provide advice and guidance to the forest managers where the company procured wood to help them achieve FSC certification. Yet it proved impossible to find out which forests supplied the wood.

In September 1999, ScanCom formalised its Wood Policy and in December 1999 started buying its own wood, thus bypassing the middlemen and wood traders. By March 2000, three more CMs were COC certified. By September 2000, 20 CMs were COC certified and strict WOC procedures were in place. ScanCom's own wood procurement

program was up and running, targeting those forests that met the company's Wood Policy. The CMs were still procuring wood as well, but before this could be used in ScanCom's production full document sets had to be witnessed and signed off by the IAT.

By April 1st, 2001, ScanCom and its customers had achieved their target. ScanCom had reduced the number of CMs to 35, all of which were COC certified by FSC accredited third party auditors. Strict WOC procedures were functioning as was ScanCom's wood procurement program, and the TFT had commenced activities at two forest management units to assist them achieve FSC certification. Not all the forests from where ScanCom bought wood had functioning COC systems but strict document checks and communication with stakeholders in the countries where the wood originated gave the company strong comfort that its wood was legal. More work needed to be done with the forests and the TFT has been doing that. In July 2002, the TFT's first project achieved FSC certification and its other project has implemented a stump to port COC system. At the same time, ScanCom has increased the volume of FSC wood it procures and in some cases its customers are now taking 100% FSC furniture deliveries.

ScanCom and its customers faced a very daunting prospect at the end of 1998. In just over two years they were able to transform their supply chain from complete chaos to strict control and verifiable legality. The bad systems remain so ScanCom and its customers must maintain constant vigilance else the good work will be wasted. Nonetheless their example proves that it is possible to exclude illegal and other unwanted wood from quite complex supply chains. It's a real life example and it was a successful and significant achievement.

WWF International recognised the achievement by awarding the TFT and its members its highest environmental honour, a **Gift to the Earth award**, in March 2001.

Work Plan

This example Work Plan, developed for a fictitious company assumes the company has an annual wood raw material requirement of around 100,000 m3 of logs. It's assumed that the target is to achieve the exclusion of illegal and other unwanted wood from the company's supply chain after two years.

		YEAR 1				YEAR 2				YEAR 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Step 1	Build Team												
1.1	Appoint Project Leader												
1.2	Develop Work Plan												
1.3	Recruit and Train IAT												
1.4	Communicate Project objectives to all staff												
1.4	Communicate Project objectives to supply chain partners												
Step 2	Communications Program												
2.1	Identify key project stakeholders												
2.2	Open dialogue with stakeholders: inform/listen												
2.3	Send stakeholders Work Plan												
2.4	Send project progress reports												
Step 3	Baseline Supply Chain												
3.1	Determine supply chain structure												
3.2	Determine supply chain quality												
3.3	Determine supply chain scale												
3.4	Consult broadly with all stakeholders/experts												
Step 4	Wood Policy												
4.1	Draft Wood Policy												
4.2	Consult broadly												
4.3	Finalise the Policy												
4.4	Raise awareness of the Policy amongst staff, supply chain partners												
Step 5	Take Action												
5.1	Targeted Wood Procurement program												
5.1.1	Identify FMUs that meet Wood Policy specifications												
5.1.2	Organise for your wood to be procured only from these FMUs												
5.2	COC Systems												
5.2.1	Implement COC in your own processing facilities												
5.2.2	Implement/monitor COC in your supply chain partners' facilities												
5.2.3	Develop a program with FMUs												
5.2.4	IAT Monitoring program to check progress												
5.3	Wood Origin Control												
5.3.1	Educate supply chain partners on correct documents												
5.3.2	Compile document sets for all wood used												
5.3.3	Monitor and spot check												
5.4	Third Party Audit												
5.4.1	Third party audit own processing facilities												
5.4.2	Third party audit supply chain partner facilities												
5.5	Report Progress												
Step 6	Achieve Targets												
6.1	Illegal and other unwanted wood excluded from supply chain												
6.2	Market Achievements												
6.3	Review systems implementation/monitor												
6.4	Revise/Update Wood Policy												

External Assistance Providers

The following is a list of some organisations which may help you achieve your targets.

The Tropical Forest Trust www.tropicalforesttrust.com

The Forest Stewardship Council (FSC) www.fsc.org

FSC accredited certifying bodies:

BM Trada (UK) www.bmtrada.com

Eurocertifor www.eurocertifor.com

GFA Terra Systems (Germany) www.gfa-certification.de/english

ICILA (Italy) www.icila.org

Institut für Markökologie IMO www.imo.ch

Rainforest Alliance Smartwood www.smartwood.org

Scientific Certification Systems www.scs1.com/forestry.shtml

SGS Forestry Qualifor www.qualifor.com

Silva Forest Foundation (Canada) www.silvafor.org

SKAL (The Netherlands) www.skal.com

Soil Association (UK) www.soilassociation.org

South African Board of Standards www.sabs.co.za

Finnish Forest Certification System www.ffcs-finland.org/eng/index.htm

Lembaga Ekolabel Indonesia www.lei.or.id

Pan European Forest Certification Council (PEFC) www.pefc.org/

Sustainable Forestry Initiative (SFI) (US) goodforests.com/

NGOs:

Amnesty International www.amnesty.org

Burma Action Group www.burmacampaign.org.uk

Dogwood Alliance (US) www.dogwoodalliance.org

Down to Earth: international campaign for ecological justice in Indonesia <http://dte.gn.apc.org/>

FERN www.fern.org

Forest Peoples Programme www.forestpeoples.org

Forest Watch www.globalforestwatch.org/english/index.htm

Forests.org <http://forests.org/links/>

Friends of the Earth International www.foei.org

Global Forest Watch www.globalforestwatch.org

Global Witness (UK) www.globalwitness.org

Greenpeace www.greenpeace.org

Human Rights Watch www.hrw.org

International Alliance of Tribal and Indigenous Peoples of the Tropical Forests <http://iaip.gn.apc.org/>

IUCN www.iucn.org

Just World Trading www.oneworld.org

National Wildlife Federation www.nwf.org

Nepenthes (Denmark) www.nepenthes.dk

Rainforest Action Network (US) www.ran.org

Rainforest Foundation www.rainforestfoundation.org/

RobinWood (Germany) www.robinwood.de

Swedish Society for Nature Conservation (SNF) www.snf.se/english.cfm

Taiga Rescue Network www.taigarecue.org

Walhi (Indonesia) www.walhi.or.id

World Rainforest Movement

Includes many links to NGOs worldwide, and inter-governmental sites www.wrm.org.uy

World Resources Institute www.wri.org/wri

WWF International

For all national WWF Office websites addresses www.wwf.org

(WWF Germany maintains a database of FSC certified forests worldwide)

Forests information at www.panda.org/forests4life

External Assistance Providers continued

Trade Organisations:

An extensive list of trade organisations and of ethical and sustainable business initiatives is given at www.efi.fi/cis/english/links.phtml#trade

Certified Forest Products Council (US) www.certifiedwood.org/

Global Forest and Trade Network (GFTN) www.panda.org/forestandtrade

Timber Trade Federation (UK) www.ttf.co.uk

International consulting companies:

There are a large number of consulting companies working on certification, forestry, trade, COC and related issues. The below list is certainly not exhaustive and tends to focus on larger international companies. There are numerous smaller-scale, local consultancies and you should talk with other stakeholders and colleagues to find out who is operating in the countries where you get your wood.

ERM www.erm.com

FORM Ecology Consultants www.forminternational.nl

GFA Terra Systems GmbH www.gfa-group.de

H.A. Simons www.simonsinternational.com

Inter Cooperation www.intercooperation.ch

Jaakko Poyry www.poyry.com

LTS International www.ltsi.co.uk

NEPCon www.nepcon.dk

Pira International www.pira.co.uk

ProForest www.ProForest.net

URS Forestry www.urs.com.au/spec/aust_bus-forest1.asp

Others:

Commonwealth Forestry Association www.cfa-international.org/

Convention on International Trade in Endangered Species (Cites) www.cites.org

Directory of Forest Products, Wood Science & Marketing www.forestdirectory.com

FAO – Forestry www.fao.org/forestry

Forest World www.forestworld.com/welcome.cfm

Forestry.com www.forestry.com/cgi-bin/theforum/dcboard.cgi

International Tropical Timber Organisation (ITTO) www.itto.or.jp/Index.html

The European Forest Resource Database – Certification Information Service www.efi.fi

UN/ECE Timber Committee www.unece.org/trade/timber/Welcome.html

Woodworking International www.harnisch.com

World Forest Institute www.worldforestry.org



Linking business with responsible forest management

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The Tropical Forest Trust is working to transform the international trade in tropical timber and timber products into an agent for forest conservation and sustainable and equitable social and economic development at all points in the supply chain. We are striving to expand the area of natural forest that is independently certified under the FSC scheme, to ensure that forest management is socially beneficial, environmentally appropriate and economically viable.

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www.tropicalforesttrust.com



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"The Blokker Group, as a retailer of wooden garden furniture, finds Good Wood, Good Business to be a valuable resource. We urge all of our suppliers of wooden garden furniture to follow the process it describes, and help us to ensure that the wooden garden furniture in our stores is legal and increasingly from FSC certified forests."

René Dijkman,
Buyer, Tuincentrum Overvecht
part of the Blokker Group

"At Robert Dyas we have worked with our hardwood garden furniture supplier to really prevent illegal and other undesirable wood entering our supply chain. Good Wood, Good Business gives clear practical guidance on how to clean up your wood products supply chain – I recommend it to other retailers and to their suppliers."

Brent Wilkinson
Chief Executive, Robert Dyas

"This book will be a huge assistance to both Retailers and Manufacturers and Foresters. We all need help to understand both the issues and the solutions – and the TFT has delivered both. Read this and radically improve your supply of Good Wood forever."

Rob Cissell
Managing Director – Commercial, B&Q UK