Still feeling stumped?

Reaction to the first eight months of the EU Timber Regulation

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The EU Timber Regulation (EUTR) came in to force in March 2013 and prohibited illegally harvested timber and timber products from being placed on the EU market. Eight months on and Carnstone issued a survey to gauge how companies were responding.

Carnstone's work includes supporting companies in their response to global supply chain sustainability issues. This work covers raw material sourcing including timber. We understand the challenges companies can face in responding to the requirements of the EUTR and the successes that are being achieved. Eight months on from the implementation of the EUTR this survey highlights those successes, and the challenges that many still face. We hope the results help to provide a wider understanding of the EUTR's implications and specifically identify where more work is needed.

No surprises but some distinct trends

Several of the findings in this report may come as no surprise to those working on Due Diligence (DD) – for example, that forest source information for composite products is difficult to gather - but it is still useful to verify these views.

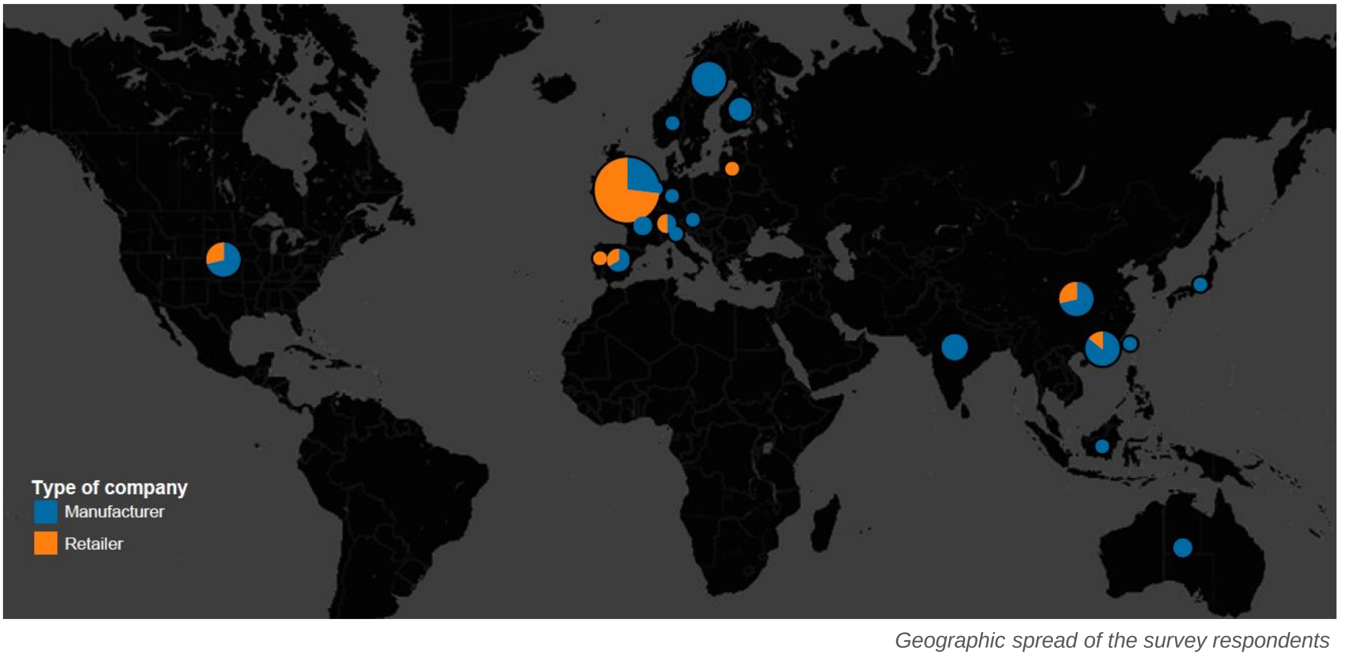
As well as confirming what we know several interesting trends have also emerged. For example, retailers have experienced the most widespread change including higher procurement costs, extended timelines and altered product lines. Companies across the board also prefer to take DD in-house rather than outsourcing, and many have recruited staff to handle this extra workload.

The results also highlight important opportunities for suppliers and customers alike. By understanding the common gaps and challenges we hope that companies will be better placed to improve the efficiency of their DD Systems, reducing delays and costs.

80
respondents

Eighty manufacturers and retailers completed the survey, most of whom are based in Europe. Although manufacturers make up two thirds of the respondents a significant portion of the UK retail sector also got involved, with nineteen companies responding. Over 80% of all respondents defined themselves as operators.

65%
manufacturers



Geographic spread of the survey respondents

Blanket Due Diligence cover is the norm

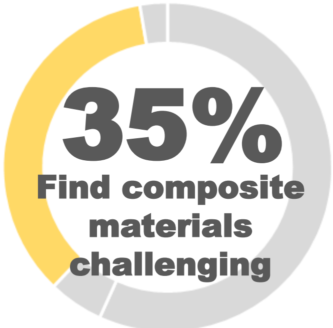
One of the first tasks for operators is to understand which products are within scope of the regulation. But interpreting the scope for thousands of product lines is a complex job; only applying DD to those in scope just adds another layer of complexity.

This is why over three quarters of companies have chosen to carry out DD on all of their timber products, regardless of whether they are in scope or not. It also makes their DD system resilient against future changes to the scope which is due for review in 2015.

This blanket approach means operators are handling and assessing more product information, which can significantly delay the procurement process. Despite this, and although procurement timelines are now longer, over 60% of companies have managed to successfully collect data for most of their product lines.

There are gaps in the product information…

The next step for operators is to gather product information and this can be a long process, especially as some is not always immediately at hand for suppliers. Finding compliance documents is the most common challenge and roughly a quarter of all respondents also struggle to identify the tree species.

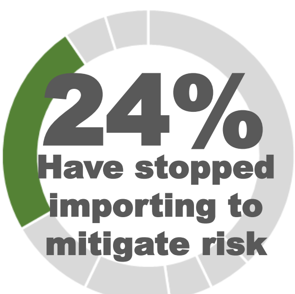


Supplier response rates differed between geographic regions but most respondents identified Asia as taking longer to provide the information.

It may come as no surprise that composite materials, such as paper, board and MDF, pose the biggest challenge for those furthest from the forest source. This is an ongoing challenge for businesses such as retailers but paper manufacturers, in particular, report fewer problems when gathering the necessary information. This reflects the fact that paper mills are much closer to the point of harvest and therefore have better data.

…but it is the correct information when it arrives

Most respondents felt that when it did arrive, the product information was relevant and correct, but only one third believe the quality has improved since March 2013. As a result over half the companies surveyed are moving towards third party forest and Chain-of-Custody certification to help mitigate the risks they are identifying.



Risk assessments are affecting product lines

Where product information is not available, or where risks can't be mitigated, some operators are taking action by stopping imports and finding alternative suppliers. In some cases product lines have been completely withdrawn from sale – this is much more common among retailers.

Due Diligence takes time

Due Diligence is time-consuming and it has extended the time it takes to buy products. As a result companies have decided to take charge of their own DD systems in-house to streamline the process and have recruited dedicated staff to support this. In addition, only 12% have employed the services of a Monitoring Organisation.

25%
have hired staff to support DD

A range of departments manage the DDS; retailers opt for senior management and managers from the compliance, quality/technical, and environment/sustainability teams; whereas manufacturers more commonly assign responsibility to certification managers or the purchasing and production teams.

Costs have risen as a result

This widespread change – new staff, new systems, chasing data, longer lead times, and certified material price premiums – has led to rising costs. Although this is more pronounced amongst retailers (over half said costs have risen), one quarter of the manufacturers have also felt the effects.

Eight months on

The first eight months of the EUTR has seen positive change. Companies have taken control of Due Diligence Systems and increased their own capacity to handle the extra workload.

Gaps still remain when it comes to gathering documentation and it is not surprising that this is most pronounced for those furthest from the forest source. In the face of slow improvements to data quality and continued pressure to collect detailed forest source data, companies are increasingly using third party certification to help mitigate their risks.

Companies have invested time and resource implementing the requirements of the EUTR and it is affecting their sourcing decisions. Faced with growing demands on resource and challenges of accurate and timely data, businesses will need to adapt to increase the efficiency of DD systems and stem the rising tide of costs. The first eight months has been a promising, but challenging, start.