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Supplier Evaluation & Risk Assessment Guidelines for Evaluation

1.0 Background:

The objective of the supplier evaluation is to document that the supplier can trace raw material to a non-controversial source that is considered Low (negligible) Risk of being illegal to classify the material as Verified Legal (VL). The critical element is to document that there is a low risk for the supplier to have controversial or illegal material. GFS understands that the Timber Industry needs a simplistic system to evaluate the risk of timber being purchased, manufactured and traded within the supply chain. GFS has provided for a fundamental risk evaluation through General Risk Categories.

2.0 General Risk Categories:

GFS Wood Tracking Program has defined that risk can be based on general risk categories in respect to:

- Country risk
- Species risk
- Operational system risk

2.1 Country Risk:

Country Risk is based on the country of timber origin. Countries that have strong legal compliance in regards to the timber industry will have low / negligible risk of material being harvested and traded illegally. While countries that are considered to have poor rule of law and perceived to have higher corruption levels tend to be higher risk.

2.2 Species Risk:

Species Risk is based on the potential for illegal activities occurring based on the timber species. Timber species that are planted and low value are usually not under threat of being harvested and traded illegally. High value species and species from tropical natural forests are considered to be higher risk of being illegally harvested and traded.

2.3 Operational System Risk:

Operational Risk is based on the presence of 3rd party verification or government verification of compliance to regulations or international standards of certification. Independent verification of forest and supply chains indicate low risk even when area or species risk is not low risk.

The GFS Wood Tracking Program requires that all participants, conduct a Risk Assessment of all suppliers to verify low risk of all material imported and obtained locally. GFS provides a simple general guide for evaluation of Low & High Risk levels within each of the General Risk Categories.

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3.0 Fundamental Risk Evaluation of General Categories:

3.1 Country Risk:

Based on a Corruption Perception Index (<http://cpi.transparency.org>) by Transparency International. Country Risk is directly related level of Law Enforcement and transparent Governance that is related to corruption.

Low Risk Country	Countries with CPI score of 60 and above . Developed countries in North America, Western Europe, Australia, New Zealand and Japan have high levels of Law Enforcement and Governance. These countries tend to have detailed forest management and environmental requirements & for harvesting timber that originates within those countries.
Medium Risk Country	Countries with CPI scores between 40-60 can be considered as medium.
High Risk Country	Countries with CPI scores below 40 . Developing countries and tropical countries mostly located in South America, Africa, Russia, Asia and South Pacific mostly have poor records of good governance and law enforcement that directly affects the forest and timber industries.

3.2 Species Risk: Species risk is based on the potential for illegal activities occurring based on the timber species. Timber species that are planted and low value are usually not under threat of being harvested and traded illegally. High value species and species from tropical natural forests are considered to be higher risk of being illegally harvested and traded.

Low Risk Species	Low Risk is linked to Low Value Species that are generally planted: Plantation based species (such as rubberwood (<i>Hevea brasiliensis</i>), Eucalyptus spp, pine (<i>Pinus</i> spp), Gmelina spp, Acacia spp, Albiza spp, Poplar (<i>Populus</i> spp); Planted temperate species and low value tropical pioneer species; Natural temperate forest species from low risk countries.
High Risk Species	Tropical natural forest species such as dipterocarps; high valued species (such as: teak, sandal wood, mahogany, rosewoods, ironwoods, ramin, etc.) that are grown naturally or planted. ALL CITIES listed species without CITIES certificate.

3.3 Operational System Risk: Operational risk is based on the presence of 3rd party verification or government verification of compliance to regulations or international standards of certification. Independent verification of forest and supply chains indicate low risk even when country or species risk is not low risk.

Low Risk Operations	Forest or Plantation areas audited under third party systems such as international or national certification systems. Wood Processing and trading companies, which have formal chain of custody systems audited by 3 rd parties. Forest or plantation areas that are regulated by government agencies whereby documentation of compliance is available.
High Risk Operations	Forest or Plantation areas in high-risk countries that are not audited by third parties or by government agencies, where no information or records are available regarding compliance to regulations. Wood processing and trading companies that do not have formal chain of custody systems to demonstrate traceability of wood products back to raw material and forest

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	of origin.
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GFS understands the need for a practical method to evaluate risk of timber / supplier without visiting each site as the costs and time would not be economically viable. An overall evaluation of risk can be based on the associated General Risk Categories detailed above using the following matrix:

4.0 Overall Risk Evaluation – of General Risk Categories:

The Risk Matrix is designed to correlate risk of the various General Risk Categories. The fundamental underlying element is ***the credibility of the legality system within the country of timber origin or independent verification to assess compliance to regulations across the supply chain***. Thus, if the Country Risk of the timber origin is low, all other general risks become low. If the timber and supplier is documented to have a low operational system risk due to independent verification of the timber and supplier for legality and or full certification, then all other General Categories are considered low risk. Species risk is associated with timber value of which planted species tend to be low value. Low value species can be considered low risk from countries that are classified as low or medium risk.

The Risk Matrix in section 4.1 graphically details the levels of risk associated with each of the General Categories.

4.1 Risk Matrix

Categories	Low Risk Country	Medium Risk Country	High Risk Country
Low Risk Species	Low Risk	Low Risk	High Risk
High Risk Species	Low Risk	High Risk	High Risk
Low Risk Operations	Low Risk	Low Risk	Low Risk

Any timber not defined, as Low Risk following the Risk Assessment may **NOT** be used in GFS WTP as verified legal.

Suppliers of timber and wood products that falls into a **High Risk Red Box** will require additional information or independent verification to reduce the risk. Additional information can be obtained through using the Detailed Supplier Information Checklist to document that the supplier and timber is not high risk. The objective is to ensure that overall risk through formally documented evidence is low.

Suppliers may provide information that identifies the timber or supplier from Medium Risk Countries relevant to the General Risk Categories and the Risk Matrix. The Company needs to provide additional information to justify reduction of Medium Risk to Low Risk supported by information as in the Detailed Information Checklist. All suppliers and material Not defined as low risk according to the Risk Matrix will require an independent verification to document low risk. GFS provides this as part of the Legal Verification Services to document compliance to legal regulations according to GFS-WI-006-LVS-1 standard. GFS or an approved 3rd party can conduct the evaluation to provide independent evaluation of low risk.

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5.0 Supplier Evaluation & Records

Supplier - Data Sheet

Supplier Company	
Address	
Factory Address	
Tel / Fax / Email	
Contact Person	

Certification / Legal Verification

FSC # / PEFC #		Expiry Date	
Certification Body & Scope			
GFS WTP / LVS # MTCC # / LVK #		Expiry Date	
Certification Body & Scope			
Other Certificates		Expiry Date	
Certification Body & Scope			

Product type	Country of timber origin	Species

6.0 Supplier Approval – General Risk

The supplier must be deemed to be competent to supply the material requested as Verified Legal (VL) through either certification, 3rd party verification or through internal evaluation as appropriate to demonstrate negligible risk of the material or wood products being illegal based on the General Risk Categories.

Risk Evaluation Matrix:

Categories	Low Risk Country	Medium Risk Country	High Risk Country
Low Risk Species	Low Risk	Low Risk	High Risk

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GFS-WI-006-WTP.2	Title: Supplier Risk Assessment	Issue: 09	Date: 26 Feb 2017

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High Risk Species	Low Risk	High Risk	High Risk
Low Risk Operations	Low Risk	Low Risk	Low Risk

Approval Record:

Record of Risk Evaluation Results for each timber product based on species and country of timber origin according to the General Category in section 3.0 and record the overall evaluation based on the Risk Matrix above.

Timber Product Group	General Risk Categories			Risk Matrix
	Country Risk	Species Risk	Operational Risk	Overall Risk

Note : Any timber product not defined as Overall Low Risk following the General Risk Assessment cannot be identified as VL within the GFS WTP, and will require an independent verification to document low risk. GFS provides Legal Verification Services to document compliance to legal regulations according to GFS-WI-006-LVS-1 standard. GFS or an approved 3rd party can conduct the evaluation to provide independent evaluation of low risk.

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Detailed Information Checklist Raw Material or Wood Products

This detailed information checklist can be for suppliers and material that is **not** deemed low risk based on the results of the General Risk Assessment and Matrix. The following basic information should be obtained by the WTP Participating Company from each supplier of raw material or products that are not evaluated as low risk based on the General Risk Matrix. The additional information will be needed to justify reducing High / Medium Risk to Low Risk.

Area Risk:

1) Origin of Material :		
1.1) Country (& district) if available of raw material.		
1.2) Land ownership type (Government; Private; Forest Concession; Small holder, Community).		
1.3) Does the material come from Plantation or Natural Forests or mixed?		

2) Species used in raw material :		
2.1) Please provide a list of species of wood supplied in raw material or products.		
2.2) CITIES species used in material.		
2.3) Mixed material unknown species.		

3) Right to harvest :		
3.1) Does the origin of material come from a known commercial forest or plantation area?		
3.2) Does the origin of material come from many small holder or private land owners that do not require special license for harvest?		
3.3) Is there a valid harvesting license or right to harvest for the forest area or		

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GFS-WI-006-WTP.2	Title: Supplier Risk Assessment	Issue: 09	Date: 26 Feb 2017
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plantation?		
3.4) Is a copy of harvest license or confirmation of harvest rights available?		
3.5) Are there prescribed harvest species and volumes?		
3.6) Is there a map of the forest / plantation and licensed harvesting blocks?		

4) Social Issues:		
4.1) Social Impact Assessment conducted?		
4.2) Are there local villages /communities within the concession or harvest area?		
4.3) Are there any land claims to the harvest area?		
4.4) Is there a system available to address Land claims, Verification of dispute resolution?		
4.5) Workers employed by formal agreement or contract?		

5) Environmental Issues:		
5.1) Environmental Impact Assessment conducted?		
5.2) Are there defined areas for protection within the concession or harvest area ?		
5.3) Is there a system and reports on monitoring protection of environmental issues?		
5.4) Is there a system to protect against illegal hunting, trapping, etc.?		

6) Independent verification :		
6.1) Is there licensing of logs by government agency at the plantation or natural forest that document the origin of material?		
6.2) Is there inspection of raw material		

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GFS-WI-006-WTP.2	Title: Supplier Risk Assessment	Issue: 09	Date: 26 Feb 2017
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following transport or at mill gate?		
6.3) Is there 3 rd party verified Chain of Custody system?		
6.4) Does your company have formal Procedures to trace raw material used in products?		
6.5) Does your company have formal policy regarding compliance to regulations?		
6.6) Can you supply sample of records to track supplied products / raw material to forest origin?		

7) Government Documentation:		
7.1) Is there legal transport documentation for the material such as custom clearance; export documentation from country of origin?		
7.2) Has the consignment for export been approved and inspected by government agencies as required?		

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GFS-WI-006-WTP.2	Title: Supplier Risk Assessment	Issue: 09	Date: 26 Feb 2017



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Guidance on Evaluation of Detailed Supplier Risk Information

Part 1: Origin of Material		
1.1) Country of origin raw material.		
1.2) Land ownership type (Government; Private; Forest Concession; Small holder; Community).		
1.3) Does the material come from Plantation or Natural Forests or mixed?		

Part 2: Species used in raw material		
2.1) Please provide a list of species of wood supplied in raw material or product.		
2.2) CITIES species used in material.		
2.3) Mixed material unknown species.		

Part 3: Independent or Government Verification		
3.1) Independent verification or certification exists and is valid		
3.2) Licensing of logs by government agency at the plantation or natural forest that document the origin of material?		
3.3) Inspection of raw material following transport or at mill gate?		
3.4) 3 rd party verified Chain of Custody system or inspection of processed material.		
3.5) Formal Procedures to trace raw material used in products?		
3.6) Formal policy regarding compliance to regulations?		
3.7) Sample of records that track supplied products / raw material to forest origin.		

Part 4: Government Documentation		
4.1) Documents provided by a government agency that the plantation or natural forest meets legal requirements?		

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4.2) Is there legal transport documentation for the material such as transport permits; custom clearance; export documentation from country of origin?		
4.3 Has the consignment for export been approved and inspected by government agencies as required?		

Part 5: Right to harvest: (Medium - High Risk)		
5.1) Origin of material come from a known commercial forest or plantation area?		
5.2) Origin of material comes from many small holder or private land owners that do not require special license for harvest.		
5.3) Is there a valid harvesting license or right to harvest for the forest area or plantation?		
5.4) Copy of license or confirmation of harvest rights available?		
5.5) Is there prescribed harvest species and volumes?		
5.6) Map of the forest / plantation and licensed harvesting blocks.		

Part 6: Social Issues		
6.1) Social Impact Assessment conducted?		
6.2) Local villages within the concession or harvest area?		
6.3) Are there any land claims to the harvest area?		
6.4) System available to address Land claims, Verification of dispute resolution.		
6.5) Workers employed by formal agreement or contract?		

Part 7: Environmental Issues		
7.1) Environmental Impact Assessment conducted?		
7.2) Are there defined areas for protection within the concession or harvest area?		
7.3) Is there a system and reports on monitoring protection of environmental issues?		
7.4) Is there a system to protect against illegal hunting, trapping, etc.?		

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Any supplier that has been identified, as High Risk following the General Risk Assessment & Matrix and detailed Risk Assessment must be verified through a site visit by GFS or other approved 3rd party. All material must be verified as low risk prior to use as Verified Legal under the GFS WTP.

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GFS-WI-006-WTP.2	Title: Supplier Risk Assessment	Issue: 09	Date: 26 Feb 2017