About Us

We have been working on sustainable land use and responsible trade of forest commodities for almost 25 years.
Programme Focus

Conservation  Land Use  Traceability  Responsible Sourcing
Our Team around the World

220+ full-time staff
31 countries
44 nationalities
Network of 200+ consultants
25 registered offices across Europe, Americas, Russia and Asia
EU Timber Regulation

Places the following requirements on Operators placing timber on the EU market for the first time:

1. Placing on the market of illegally harvested timber or timber products shall be prohibited.

2. Exercise due diligence through systems and procedures.

3. Maintain and regularly evaluate the due diligence system.

Due Diligence:

1. Access to Information
2. Risk Assessment
3. Risk Mitigation
Risk Assessment Framework

Taxes and fees
• Payment of royalties and harvesting fees
• Value added taxes and other sales taxes
• Income and profit taxes

Trade & transport
• Classification of species/quantities, qualities
• Trade and transport
• Offshore trading and transfer pricing
• Custom regulations
• CITES
• Due diligence and due care

Legal rights to harvest
• Land tenure and management rights
• Concession licenses
• Management and harvesting permits

Timber Harvesting Regulations
• Timber harvesting regulations
• Protected sites and species
• Environmental requirements
• Health and safety
• Legal employment

Third parties’ rights
• Customary rights
• Free prior and informed consent
• Indigenous/traditional peoples’ rights
Information gathering
Access to Information

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### FSC National Risk Assessment of Controlled Wood for Ukraine

**Developed According to Procedure FSC-PRGO-00-02 (1)**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
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<tr>
<td>Code</td>
<td>FSC-PRGO-00-02 (1)</td>
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<tr>
<td>National approval</td>
<td>National Risk Assessment Working Group of Ukraine, Date: July 12, 2017</td>
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<tr>
<td>International approval</td>
<td>FSC International Center, Policy and Standards Division, Date: 15 December 2017</td>
</tr>
<tr>
<td>International contact</td>
<td>Name: Paolo Kirovski, Email address: <a href="mailto:p.kirovski@fsi.fao.org">p.kirovski@fsi.fao.org</a></td>
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<td>Period of validity</td>
<td>Date of approval: 15 December 2017, Valid until: date of approval + 5 years</td>
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<tr>
<td>Body responsible for MRA maintenance</td>
<td>Paolo Kirovski, FSC Ukraine National Representative, Phone: +38 044 223 88 85, Email: <a href="mailto:p.kirovski@fsi.fao.org">p.kirovski@fsi.fao.org</a></td>
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### Summary of risk for Ukraine

<table>
<thead>
<tr>
<th>Controlled Wood Category</th>
<th>Risk level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Low risk</td>
</tr>
<tr>
<td>2</td>
<td>Wood harvested in violation of traditional and human rights</td>
</tr>
<tr>
<td>3</td>
<td>Low risk</td>
</tr>
<tr>
<td>4</td>
<td>Wood from forests where high conservation value is threatened by management activities</td>
</tr>
<tr>
<td>5</td>
<td>Low risk</td>
</tr>
<tr>
<td>6</td>
<td>Wood from forests being converted to plantations or non-forested use</td>
</tr>
<tr>
<td>7</td>
<td>Low risk</td>
</tr>
<tr>
<td>8</td>
<td>Wood from forests in which genetically modified trees are planted</td>
</tr>
</tbody>
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**Stealing The Last Forest:**

Austria’s Largest Timber Company, Land Rights, and Corruption in Romania

**Complicit in Corruption**

How billion-dollar firms and EU governments are falling Ukraine’s forests

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**EarthSight**

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Risk Assessment & Mitigation
Risk Environment

- Low level of law enforcement
- Conflicting laws & interpretation of laws
- High level of perceived corruption (CPI = 30) in public bodies and specifically in forest authorities
- Existence of multiple weak points in forest legislation, which creates systemic risk of entry of illegal timber into the supply chain.

These include:
1. Inventory and marking process
2. Timber harvesting process
3. Timber sale & export process
<table>
<thead>
<tr>
<th>Legality category</th>
<th>Legality Sub-Category</th>
</tr>
</thead>
</table>
| Legal rights to harvest  | • Land tenure and management rights  
                          • Concession licenses  
                          • Management and harvesting planning  
                          • Harvesting permits |
| Taxes & fees             | • Payment of royalties and harvesting fees  
                          • Value added taxes and other sales taxes  
                          • Income and profit taxes |
| Timber harvesting        | • Timber harvesting regulations  
                          • Protected sites and species  
                          • Environmental requirements  
                          • Health and safety  
                          • Legal employment |
| Third parties’ rights    | • Customary rights  
                          • Free, Prior and Informed Consent  
                          • Indigenous peoples rights |
| Trade & transport       | • Classification of species, quantities, qualities  
                          • Trade and transport  
                          • Offshore trading and transfer pricing  
                          • Custom regulations  
                          • CITES  
                          • Due diligence and due care |
## Legal Right to Harvest and Taxes & Fees Risks:

<table>
<thead>
<tr>
<th>Risks:</th>
<th>Mitigation Measures:</th>
</tr>
</thead>
</table>
| Harvesting Permits | • Harvesting without required permits. Substantial discrepancies between official statistics & other information sources regarding unauthorised cuts.  
• Corrupt issuance of sanitary felling permits for disease containment.  |
| Desk audit to ensure harvest permits have been applied for and received for areas harvested.  | **AND**  
On-site audit to verify presence of disease.  | **AND**  
Stakeholder consultation to verify absence of unauthorised harvesting |
| VAT & Sales Taxes | • Sale of timber at lower than market prices during state auctions due to collusion & corruption.  
• Bribery by foreign companies to purchase SFE timber directly (without state auction)  
• Sale of timber to non-registered firms (illegal sawmills). |
| Desk audit to verify evidence showing: | • Sale of timber at appropriate market prices throughout the supply chain.  
• Purchase of material at auction by registered Ukrainian companies.  
• Verify registration and legal operation of all companies in the supply chain. |
## Timber Harvesting Risks:

### Risks:

1. Lack of tree marking as part of pre-harvest preparations
2. Harvesting outside authorised boundaries of planned harvest area
3. Cutting more stems than permitted in the Forest Management Plan
4. Systematic violation of nature conservation requirements during logging.
5. Damage to surrounding stems during harvesting.
6. Excessive soil damage on steep slopes
7. Dragging logged timber across watercourses.

### Mitigation Measures:

- **On-site audit** to verify:
  - Correct marking of stems during pre-harvest inventory.
  - Harvesting within legally permitted boundaries.
  - Harvesting only of allowable volumes in FMP.

- **Stakeholder consultation** to verify absence of unauthorised harvesting.

- **Desk audit** of logging area maps, both under development and completed, confirms incorporation of nature conservation requirements.

- **On-site audit** to verify compliance with nature conservation requirements.

- **Stakeholder consultation** to verify absence of environmental violations.
Trade & Transport Risks:

Risks:

- Mis-classification of round logs as fuelwood in order to avoid Ukraine’s 2015 log export ban.
- Mis-classification of weights, species, lengths and origin of wood on documents

Mitigation Measures:

Desk audit to verify:
- HS codes used on export and import documentation.
- Verification with export and import authorities.

On-site spot-checks at all tiers throughout the supply chain from forest to export/import

Species & Origin testing
Wider problems...

- **Corruption?** 3rd party auditors can be used for on-site verification but even so, corruption makes it difficult to detect illegalities where this is systematic and sophisticated at every stage in the supply chain from harvest planning through to timber export.

- **Complicity/ Negligence of the Operator?** In such cases a risk assessment is likely to be inadequate without systematic checks by EUTR competent authorities AND suitably dissuasive sanctions.

- **Supply chain complexity?** For composite products such as MDF, Chipboard, etc. traceability to forest source may be impossible. Where risk between different FMUs differs, concluding low risk conclusion may be virtually impossible also.
Summary: Risk Mitigation Options

- Have a due diligence system, and use it!
- Know your supply chain
- Source certified materials
- Obtain and verify documents
- Consult stakeholders
- Carry out on-site verification
- Conduct targeted timber testing
- Avoid / do not buy
NEPCon works to foster sustainable land use and responsible trade in forest commodities. We do this through innovation projects, sustainability services and training.