

BVRio Preliminary Due Diligence Tool

A risk management and mitigation tool integrated in
BVRio Responsible Timber Exchange

BVRio Preliminary Due Diligence Tool was developed to facilitate the process of purchase of responsible timber. The tool is integrated in the negotiation process of BVRio Responsible Timber Exchange. The system performs some checks with several public and/or official sources and presents the results in a simple and practical way, preserving the identity of the parties involved. Most of the information presented can be obtained directly from their respective public and/or official sources.

The results shown by BVRio Preliminary Due Diligence Tool should not be construed as a guarantee of legality and do not exhaust all analyzes, checks and additional measures that may be necessary or advisable to mitigate the risk of purchasing illegal timber.

The Preliminary Due Diligence tools, integrated in the negotiation process of the Responsible Timber Exchange, presently integrates the following checks:

- BVRio Due Diligence and Risk Assessment System (only Brazil)
- FSC®
- PEFC
- FLEGT Indonesia

The platform will gradually incorporate additional tools to facilitate risk management of illegality in the purchase of timber and timber products.

Below are the checks presently currently carried out by **BVRio Preliminary Due Diligence Tool**.

1. Due Diligence and Risk Assessment

1.1 BVRio Due Diligence and Risk Assessment System (Brazil)

BVRio Due Diligence and Risk Assessment System is a component of the BVRio Responsible Timber Exchange, which carries out a risk assessment related to the Seller, the supply chain and the specific consignment being negotiated. The System allows the user to consult the authorization documents for transportation of timber products and receive reports of illegalities and identified risks. The risk assessment is based on a due diligence process, where several key risk indicators (KRI) are considered, according to the methodology described in the [Methodology of the BVRio Due Diligence and Risk Assessment System](#)¹. Currently, the system is only available for Brazil.

BVRio Preliminary Due Diligence Tool integrates part of the results obtained by the BVRio Due Diligence and Risk Assessment System. The tool informs the risk assessment of the Seller (preserving its identity), not including the other participants in the supply chain of a particular consignment that is to be traded. It is recommended a full due diligence should be done for each consignment to be negotiated, which should include the complete chain of suppliers involved in the production and distribution of the consignment traded.

¹<http://docspublicos.s3.amazonaws.com/madeira/BVRio%20Metodologia%20do%20Sistema%20de%20Due%20Diligence%20v3.0%20-%20en.pdf>

2. Certifications

2.1 FSC® (Forest Stewardship Council)

FSC® is an international non-profit, multi-stakeholder organization established in 1993 to promote responsible management of the world's forests. The FSC® does this by setting standards on forest products, along with certifying and labeling them as eco-friendly. For more information see www.fsc.org.

BVRio Preliminary Due Diligence Tool verifies if the Seller has a FSC® certificate, if the certificate is valid and if the species offered in this negotiation is included in the scope of the FSC® certificate. The verification is done on the official FSC® consultation website (<http://info.fsc.org/>). Once the transaction is completed, the Buyer should verify that the sales invoice informs the FSC® certificate number after the product description.

2.2 PEFC (Programme for the Endorsement of Forest Certification)

PEFC is an international non-profit, non-governmental organization established in 1999, dedicated to promoting Sustainable Forest Management (SFM) through independent third-party certification. PEFC is an umbrella organization that works by endorsing national forest certification systems. For more information see www.pefc.org.

BVRio Preliminary Due Diligence Tool verifies if the Seller has a PEFC certificate and if the certificate is valid. The verification is done on the official PEFC consultation website (<http://pefc.org/find-certified/certified-certificates>). Once the transaction is completed, the Buyer should verify that the sales invoice informs the PEFC certificate number after the product description.

3. FLEGT Licences and national timber legality assurance systems

FLEGT licences are documents issued by timber-producing countries that have ratified a Voluntary Partnership Agreement (VPA) with the European Union (EU). The licences confirm that timber (or timber products) comply fully with the relevant laws of the country of export. FLEGT-licensed timber are considered to comply with the requirements of the EU Timber Regulation, which prohibits EU importers from placing illegally harvested timber on the EU market. EU importers therefore do not need to undertake further due diligence on FLEGT-licensed timber.

Once a country begins issuing FLEGT licences, EU member states will not allow such products to enter the EU unless they have a valid FLEGT licence. Learn more about FLEGT Licence in <http://www.flegtlicence.org/about-the-flegt-licence>.

FLEGT stands for Forest Law Enforcement, Governance and Trade. The FLEGT Action Plan was launched in 2003 aiming to reduce illegal logging by strengthening sustainable and legal forest management, improving governance and promoting trade in legally produced timber.

Fifteen tropical countries are implementing or negotiating VPAs. Ghana is at an advanced stage of VPA implementation (for more information on each country, visit <http://www.euflegt.efi.int/vpa-countries>). And Indonesia is the first to issue FLEGT Licences (<http://www.flegtlicence.org/flegt-licensed-products-from-indonesia>).

3.1 Indonesia: V-Legal Document and FLEGT Licence

V-Legal Documents are Indonesian export licences attesting legality. V-Legal Documents are issued in the context of the Indonesian timber legality assurance system (called *Sistem Verifikasi Legalitas Kayu - SVLK*). According with the Indonesian official information, the V-Legal Document provides evidence that the timber products exported meet the Indonesian legality standard and were sourced from a supply chain with adequate controls against the inflow of timber from unknown sources.

Exporting companies must attach a V-Legal Document to their consignments for export to any International Market. In case the export is to the European Union market, the V-Legal Document is called a FLEGT Licence. To obtain a V-Legal Document (or a FLEGT Licence) the exporter must hold a V-Legal Certificate (called S-LK). For additional information access the Indonesian official website of the Timber Legality Assurance System (SVLK) (<http://silk.dephut.go.id>), and the information portals about the EU FLEGT (<http://www.euflegt.efi.int/> and www.flegtlicence.org), or contact the EU FLEGT Facility (info@euflegt.efi.int).

BVRio Preliminary Due Diligence Tool verifies if the Seller is qualified as an exporter and holds a valid V-Legal Certificate (S-LK). This certificate is a pre-condition for issuing a legality document (V-Legal Document) or a FLEGT License. The verification is done on the Indonesian government's official consultations website (<http://silk.dephut.go.id/index.php/info/iuiphhk>). Once a transaction has taken place, the Buyer should check the regularity of the V-Legal Document or the FLEGT License issued.

4. Field verification and auditing

The results shown by **BVRio Preliminary Due Diligence Tool** should not be construed as a guarantee of legality and do not exhaust all recommended analyzes. Additional checks and measures may be necessary or advisable to mitigate the risk of purchasing illegal timber. In this regard, the Buyer should evaluate other ways to manage and mitigate the risks of purchasing illegal timber, including contracting verification services and/or field audits. BVRio is available to assist the Buyer in identifying potential service providers to perform such verifications and/or audits.

The platform will gradually incorporate additional tools to facilitate risk management of illegality in the purchase of timber and timber products.

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