



Supply Chain Management: Experience within Chinese Mills

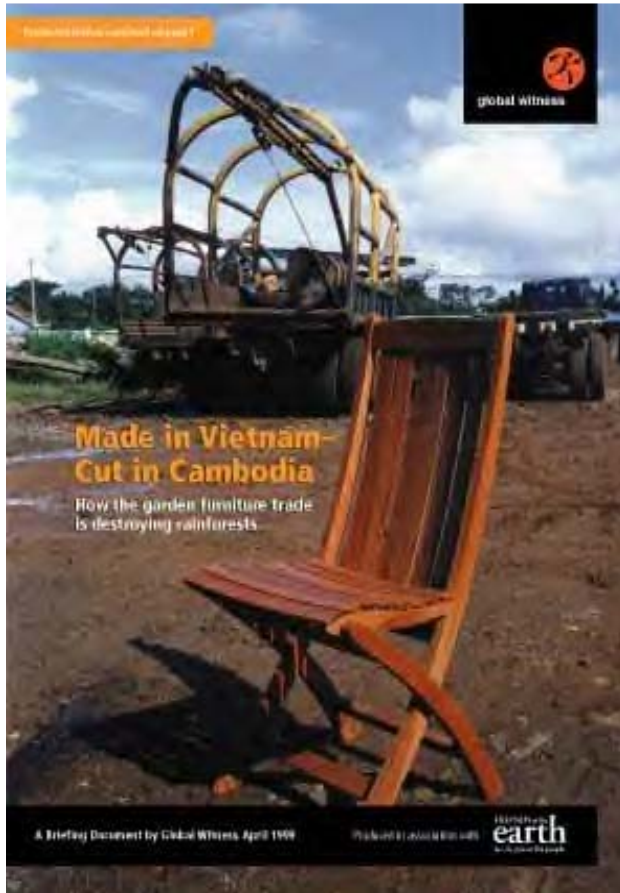
Presentation to the Forest Trends
Update Meeting on Illegal Logging
& Associated Trade

Scott Poynton, TFT Executive Director

March 8th 2007

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Introducing the TFT



GREENPEACE

ROBIN WOOD



**Friends of
the Earth
International**



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What FSC?



No significant volume of FSC hardwood

More illegal wood than money can buy

No COC, No Wood Control Systems

Bad systems ensure a constant flow of cheap illegal timber

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What to do?

Against this background, what hope is there?

No compromise from NGOs

No compromise from customers

Only Two Options:

‘It’s too difficult’ = do nothing

Get active and take control

TFT members established the TFT to help them do that

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What is the TFT?



An International membership based Organization

Offices in the UK, Switzerland, Indonesia, Malaysia, Viet Nam, China & Gabon (USA & Australia in 2007)

Registered as a non-profit in UK & US



44 members & growing

56 staff and growing



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What we do...



We help our members



Link their supply chains



To here



Using FSC wood...OR

Wood moving toward FSC

OR, at a minimum, wood that is legal 'beyond reasonable doubt'



From here



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TFT Programs



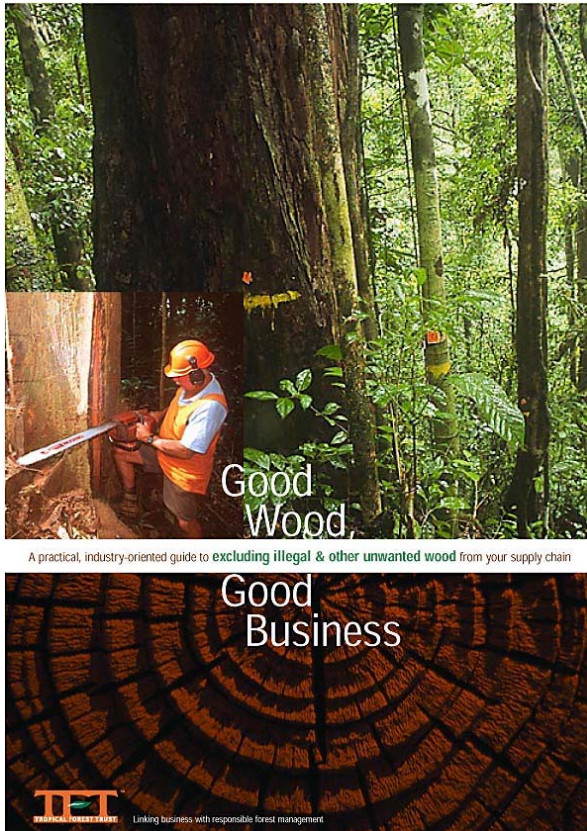
Forest Projects	SE Asia & Rep. of Congo
Wood Control Systems (Good Wood Good Business)	Indonesia, Vietnam, Malaysia, China, Cameroon, Gabon, Rep. of Congo, Brazil, Guyana & Bolivia
Communications	Supporting members, workshops, website, Press Releases
Client Services	Guiding members programs
Co-funding	Securing philanthropic support
Membership Recruitment	Securing new members
Business Administration	Running a tight operation

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Good Wood Good Business



Based on experience in first 2 years and since...



A Wood Control System Approach

- Wood Policy
- Procurement program
- Chain of Custody COC
- Wood Origin Control WOC
- Internal audit
- 3rd party audit
- Reporting system

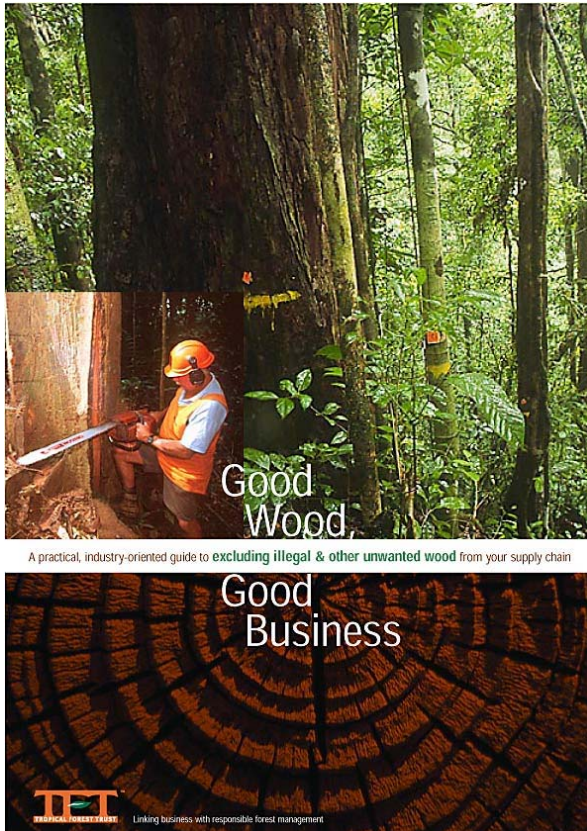
7 Elements

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Good Wood Good Business



Based on experience in first 2 years and since...



A Wood Control System Approach

- Project Team
- Communications Program
- Work out baseline
- Develop a Wood Policy
- Take Action
- Achieve Targets

6 Steps

www.tropicalforesttrust.com

Now in 8 languages

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Experience in China



- 2005
 - Greenpeace UK report on plywood, UK industry response, TFT assistance
 - Preliminary work on flooring supply chains for TFT members
 - GWGB 'Gap' Assessment in one plywood factory
- 2006
 - Secured a grant from UK DEFRA
 - Recruited full-time staff person
 - Geared up work program in plywood mills supplying UK, TFT members flooring
- 2007
 - On-going expansion of work program, more staff, more mills, awareness raising program, extending into FSC certification of plantations supplying raw materials

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Lessons



For anyone wanting to know where their wood comes from there are many challenges:

- lack of transparency of supply systems in overseas source markets
- the nature of China's domestic wood distribution systems, with individual farmers, small traders and small manufacturers all prominent players
- the number of 'hands' through which a single piece of wood may transit, both for domestic and imported raw materials
- lack of capability within Chinese firms, or an ignorance of the need to monitor or track their wood resource supply chain
- the cost for firms to implement a WCS and to source legal wood from overseas
- the lack of incentives/demand from overseas customers to require documents attesting to the legality or sustainability of raw materials

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Lessons cont

This doesn't mean that all plywood is illegal, contrary to suggestions in a recent WWF Report, it just means you can't prove it's legal

Even when imported wood has necessary export documentation, the weakness of governing institutions in exporting countries means that 'legal' product may in fact be 'illegal'

With one or two notable exceptions, most factories, i.e. thousands of them, have nothing that remotely resembles a WCS – no wood policy, no procurement 'program', no COC, no wood origin control process, no internal audit, no reporting

'Challenge' doesn't have to mean 'impossible obstacle'. It can mean 'opportunity' to the smart amongst us

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Opportunities



Chinese mills can churn out product ('efficient')

Low cost = low prices, super productive, delivery on time, design is fine, quality is sometimes suspect but given price....

Not all factories lack capability to implement WCS

Not all factory owners are ignorant or 'non-caring' about environmental issues; those with vision understand issues around sustainable raw materials supply

Faced with economic incentives/disincentives to change, they will

Chinese manufacturers are extremely adaptable as well as shameless imitators

It only takes a few examples of 'first movers' seen to be gaining an advantage by changing the way they operate for a whole sector to move in that direction

TFT is working with one such 'first mover' in the plywood sector and they HAVE secured significant market advantage in the UK

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To Conclude...



Our experience in Viet Nam and Indonesia with the GF sector highlights the need to get into factories and work with people at the coal face, change systems and change market dynamics

China is not only no different, but is in fact advantageous because of their ability and readiness to change rapidly in pursuit of market advantage

Our experience with the UK plywood market shows this to be the case

But the UK market isn't big enough to tip an industry wide sea change

If other markets – like the US – were to demand legality/sustainability and provide meaningful incentive/disincentive enticements, progress could be VERY rapid

So....look to what you can do as buyers to change the dynamic and I predict you'll be as amazed at the industries' transformation in a short space of time as you are about it's explosive growth to date

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