

Panel Supplies Ltd

INTRODUCTION

PRODUCT SOURCING GUIDE 2009

Panel Supplies is a member of the International Plywood group of Companies. International Plywood import wood-based panel products from around the world and as a successful and growing Company we are focused on meeting our customer's needs and their increasing requirements for a high quality product.

The environmental, social, and legal issues linked to the source of forest-based materials are now part of the product quality equation. International Plywood is working closely with its suppliers to ensure these new qualities are built into the panel products we distribute.

This document describes International Plywood's approach, actions, and achievements with regard to how these new qualities are being managed. It demonstrates the level of commitment and the steady continual improvements that are being made.

Only Manufacturers and Supply Companies that can demonstrate their ability to comply with our Product Sourcing Guide and then satisfactorily complete our Supplier Questionnaire will be considered as a potential new supplier. Please read this document to ensure that you understand our Product quality criteria before you contact us.

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Summary of International Plywood's Actions and Achievements

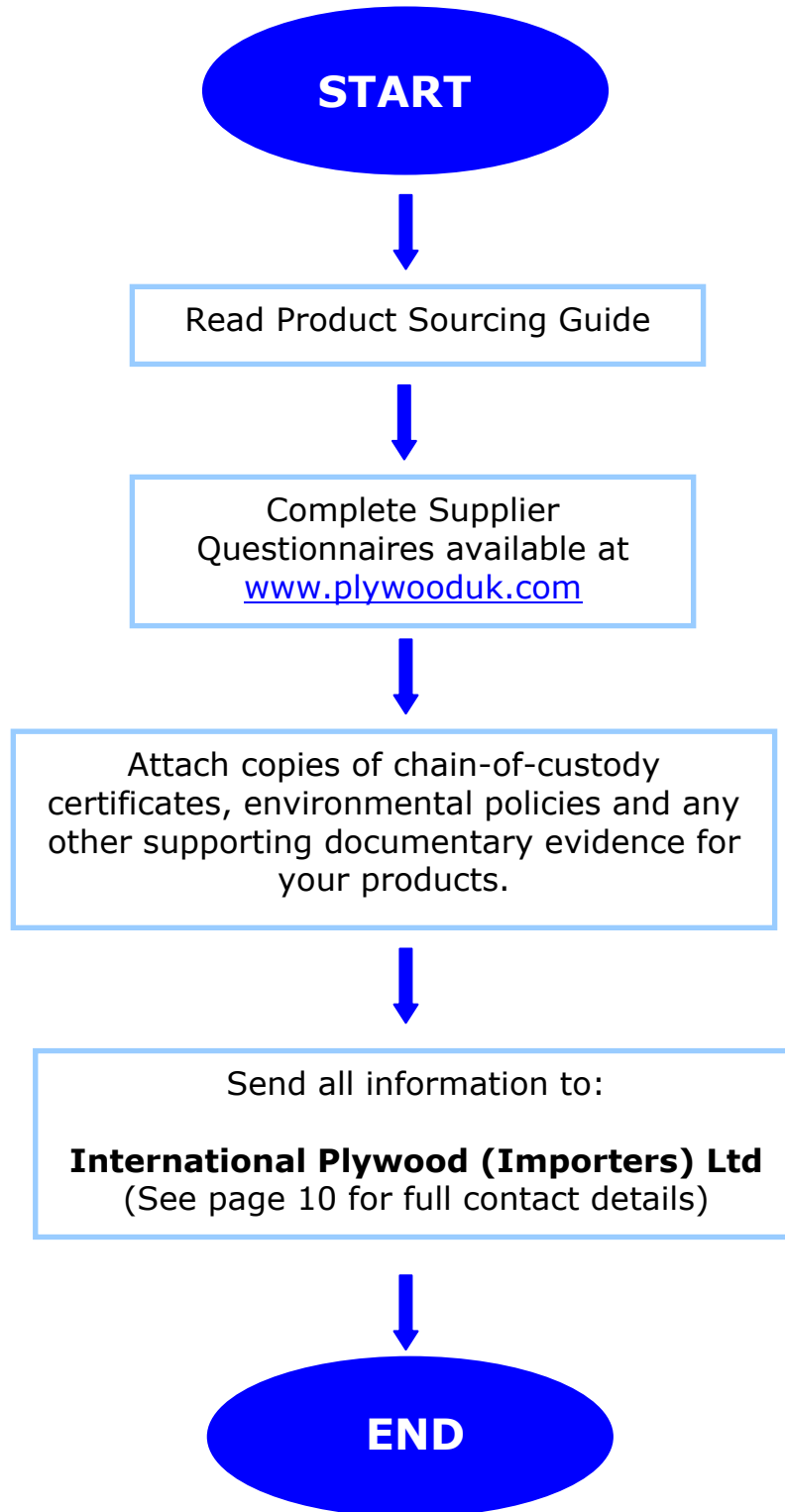
Last updated: September 2009

Activity	Date	Achievement
FSC Chain-of-Custody audit by Soil Association.	2003	Successfully passed audit (SA-COC-1305).
First purchase of Malaysian FSC certified plywood.		Early shipment of FSC certified plywood delivered to a small number of UK customers.
First purchase of Brazilian FSC certified plywood.	2005	FSC certified Elliotis pine plywood purchased as available.
Became a signatory to the UK Timber Trade Federation's Responsible Purchasing Policy (RPP).		Risk rated all major suppliers.
Voted "Plywood Trader of the Year" in 2005 Timber Trade Journal Awards.		Award based on poll of TTJ readers in the UK.
Implemented new product labeling systems to enhance traceability of imported plywood products.	2006	Most plywood packages can be immediately identified in terms of mill of origin.
2 nd Party Assessment for RPP compliance.		Independently certified as RPP compliant.
Purchase of Malaysian MTCC certified plywood.		Plywood purchased from Asia Plywood and Besgrade.
PEFC Chain-of-Custody audit by Soil Association.		Successfully passed audit (CATG-PEFC-051).
Purchase of Chilean PEFC certified pine plywood.		Arauco production Radiata pine plywood received.
Voted "Plywood Trader of the Year" in 2006 Timber Trade Journal awards.		Award based on poll of TTJ readers in the UK.
TTF/TFT China Action Plan mill assessments.	2007	5 Chinese plywood mills independently assessed for traceability of wood raw material.
Contracted 2 Chinese mills to supply FSC certified plywood.		First of planned regular shipments of FSC plywood received in mid 2007 and sold within UK and Europe.
2 nd Party Assessment for RPP compliance.		Independently certified as RPP compliant.
More than 14,000 m3 of Malaysian FSC plywood purchased during 2007.	2008	Large volumes imported and supplied to major UK customers.
2 nd Party Assessment of 78 suppliers for RPP compliance.		Independently certified as RPP compliant.
FSC/PEFC Surveillance Audit by Soil Association.	2009	Successfully passed audit.
Voted Plywood Trader of the Year in 2009 Timber Trade Journal Awards		Award based on poll of TTJ readers in the UK.
Voted Panels Trader of the Year in 2009 Timber Trade Journal Awards		Award based on poll of TTJ readers in the UK.

Flowchart

To be considered as a potential supplier to

The International Plywood Group



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1. Product Sourcing Strategy

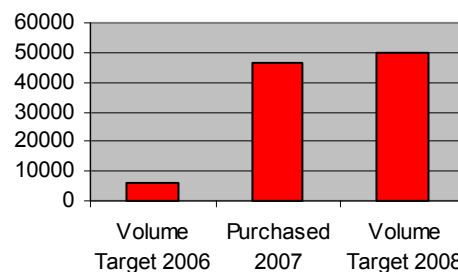
Manufacturers and Suppliers of Panel Products are advised to review our Product Sourcing Strategy as outlined below, prior to contacting our Company. A full explanation of our Sourcing Strategy is included in this document. We would be very happy to hear from suppliers who believe they can fulfil our requirements and successfully complete our Supplier Questionnaire. Our full contact details are shown on page 10 of this document.

Our Product Sourcing Strategy:

Short Term

- To source from mills selling certified Product wherever possible. Figure 1 shows our increasing volumes of certified material.
- Assess all Suppliers against the requirements of both the Timber Trade Federation's Responsible Purchasing Policy (RPP) and the Company's own Product Sourcing Strategy.
- To ultimately cease to trade with Suppliers that do not co-operate with the assessment process.
- Always insist on *legal quality* as a minimum. *Sustainable quality* is preferred but not as critical as being able to prove legality. (*International Plywood will always consult experts if there is any lack of clarity with regard to the legal status of a Supplier and their Products.*)
- Wherever possible to source from mills with an integrated raw material supply rather than those that buy on the open market.

Figure 1. Increasing Volumes of Certified Material (m³)



Medium to Long Term

- Identify and build commercial relationships with mills that may be currently uncertified but are keen to progress and build environmental quality into their products.
 - Select mills that consistently source all logs from a single forest source or readily identifiable forest sources; where there are long term agreements between the mill and the forest management company(s).
 - To ensure that the source forest, if not already certified for legality, at least has the potential for being certified. This can best be done by employing an independent forest management inspection company that will be able to identify any critical issues that may prevent future legal certification.
 - Develop medium term contractual arrangements with these types of mill.
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2. Our Customer's Requirements

International Plywood's customers make purchases based on cost, service, and Product quality criteria. Product quality is ultimately determined by the panel product manufacturer and International Plywood will look to prioritise those manufacturers who are consistent in their Product quality.

The number and complexity of these Product quality criteria are constantly increasing. This is a normal factor of market differentiation. At this moment in time the market recognises both **physical** and **environmental** quality attributes.

2.1 Physical Quality

Physical quality can refer to many plywood attributes. CE marking is one means of defining a particular type of quality. There are other attributes that those with expertise in plywood, such as International Plywood (Importers) Ltd, can readily identify just from physical appearances and are affected by the species of timber used and the quality of the veneers used by the manufacturer.

2.2 Environmental Quality

Environmental quality can be more difficult to define. Environmental quality has no physical manifestation and relies on obtaining credible information about the forests where the original trees grew that form the raw material for the veneers from which the plywood is manufactured. Environmental quality attributes include component issues such as *legality* and *sustainability*.

2.2.1 Sustainable Quality

As a UK based trading company, it is appropriate for International Plywood (Importers) Ltd to define sustainability along the same lines as the UK Government Timber Procurement Policy. A 'sustainable source' in the context of the UK Government procurement policy refers to a forest source where management minimises harm to ecosystems, maintains forest productivity, ensures forest ecosystem health and vitality and maintains biodiversity. The details of the interpretation must be decided based on the balanced participation of social, environmental and economic interests.

Forest certification schemes provide a way of defining sustainable forest management. The Central Point of Expertise on Timber (CPET) is a service of the UK Government, set up by the Department for Environment, Food and Rural Affairs (Defra). This service provides government procurement personnel with information and advice to support the implementation of their timber procurement policy. Table 1 summarises five forest certification schemes assessed by CPET and whether they are considered to represent legal or sustainable examples of forest sources according to the UK Policy criteria.

Table 1. CPET Approved Forest Certification Schemes (reviewed December 2006)

Certification Scheme	Legal	Sustainable
Canadian Standards Association (CSA)	Yes	Yes
Forest Stewardship Council (FSC)	Yes	Only products or product lines containing more than 70% certified or recycled raw material.
Malaysian Timber Certification Council (MTCC)	Yes	No
Programme for the Endorsement of Forest Certification (PEFC)	Yes	Only products or product lines containing more than 70% certified or recycled raw material.
Sustainable Forestry Initiative (SFI)	Yes	Only products or product lines containing more than 70% certified or recycled raw material.

As shown, all CSA certified products are regarded as being of *sustainable quality* whereas MTCC certified products do not have this quality but are recognised as having *legal quality*.

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International Plywood (Importers) Ltd has been registered as FSC Chain-of-Custody certified since 2003 (SA-COC-1305). A new FSC Policy: Policy for the Association with FSC (FSC-POL-20-002 V3-0 D2-1 EN) outlines how the FSC will only allow its association with third parties (companies) that are not involved in the following unacceptable issues:

- a) Illegal logging or the trade in illegal wood or forest products
- b) The violation of traditional and civil rights in forestry operations
- c) Destruction of high conservation values in forestry operations
- d) Conversion of forests to plantations or non-forest use
- e) Planting of genetically modified trees in forestry operations

The implication is therefore that ALL product lines at International Plywood will be monitored prior to and during an FSC Chain of Custody Audit so that FSC is not indirectly associated to any products from the above. We are therefore fully committed to screening all existing and new suppliers to ensure they comply with both our internal and external environmental controls.

2.2.2 The Physical Quality of Certified Material

In some instances certified Products have been found to be of poor physical quality. This may be due to them originating from relatively young plantation species of timber. International Plywood will not purchase certified sheet materials manufactured from sub-standard veneers or sheet materials which have been poorly constructed. Repeated experiences prove they will not sell and this is one factor undermining the certification initiative within the UK and European markets.

2.2.3 Legal Quality

All forest management certification programmes have a sub-component that considers the legality of the operation being assessed. Legality compliance is the first step towards sustainability and a forest management operation cannot be certified for best practice forest management if it is operating illegally! Governments, Non-Government and Trade Organisations provided various definitions Illegality, as outlined in Appendix 1 (see page 11).

CPET has also stated that forests do not necessarily have to be certified to be considered capable of producing legal timber. In reality, an increasing range of downstream distributors and retailers have set the CPET definition of legality as their minimum environmental quality threshold. Products certified for sustainability are desirable but if they cost significantly more per unit volume then many consumers are satisfied with legal quality.

For UK Government procurement, legal timber and wood derived products are those which originate from a forest where the following requirements are met:

a)	The forest owner/manager holds legal use rights to the forest.
b)	There is compliance by both the forest management organisation and contractors with local and national legal requirements including those relevant to:
	• Forest management
	• Environment
	• Labour and Welfare
	• Health & Safety
	• Other parties tenure and use rights
c)	All relevant royalties and taxes are paid.
d)	There is compliance with the requirements of CITES.

The objective evidence that supports compliance with the above is categorized as Type B evidence by CPET. Expertise is required to identify credible Type B evidence.

2.2.4 Sanctions for Trading in 'Illegally Sourced Timber'.

A recent "Private Members' Bill" in the UK House of Commons, entitled 'Illegally Logged Timber (Prohibition of Sale and Distribution) Bill 2007-08', has called for a law to 'Make it an offence for any importer or distributor to sell or distribute in the United Kingdom any wood harvested, manufactured or otherwise dealt with illegally in the country from which the wood originated or through which it passed or was transhipped; and for connected purposes.' The maximum penalties proposed for trading in illegal timber are 5 years imprisonment, a £100,000 fine or both. The Bill is due a second reading on 17th October 2008. Irrespective of whether this law is passed and enacted, it clearly emphasises that the purchase and sale of timber which cannot be shown to be from a legal source will not be accepted by responsible purchasers within the UK market.

3. Factors that International Plywood takes into account when considering Suppliers

A Timber Product's environmental quality attributes are initially identified at forest source. For plywood traders this means that the primary manufacturing mill has to be buying peeler and veneer logs from forests with the right environmental qualities. There are a limited number of forests that can be proved to have the right qualities and therefore there are limited supplies of plywood with appropriate sustainability and legality attributes. Yet these attributes are increasingly required by end customers (central government, local government and their suppliers). The competition for product from these sources has become intense. This reflects the:

- Increased levels of awareness amongst the end consumer concerning the trade in illegal timber and the need to protect the environment.
- Specific buyer linked compliance based programmes like WWF's GFTN, the UK Govt's CPET, and the TTF's RPP.
- EU FLEGT inspired initiatives such as the search for legal instruments to prosecute EU companies suspected of importing illegal timber and the VPA programme.

Compliance with each of these programmes provides a means of identifying and confirming that environmental and legal qualities have been built into the Product.

Figure 2. Plywood Mill compliance with EU Environmental and Legal Requirements

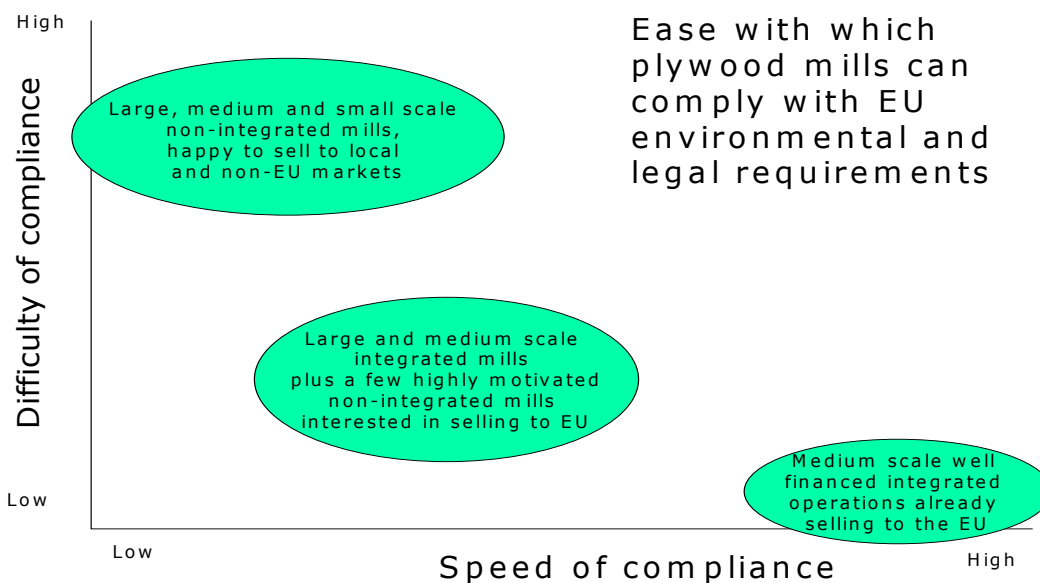


Figure 2 summarises the attitude of primary mill management with regard to compliance with environmental quality issues

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In addition to this, plywood mills have for many years been receiving mixed messages from European buyers about what environmental and legal qualities their Products need to comply with. Also, while the message was confused, this enabled them to feign ignorance of the whole topic. There are also a vast range of different types of mill that vary in terms of production capacity, efficiency, physical quality of production, manufacturing equipment, degree of integration with upstream forest production and level of knowledge of the EU market place.

Plywood manufacturers who have experience of the EU market place (who tend to be well financed) find it far easier in terms of time and money to comply with EU environmental and legal quality requirements. Mills that are older, less well connected with the EU, or that buy raw material on the open market, find it far more difficult, and feel less compelled to comply.

3.1 Supplier Differentiation

Panel Products manufacturers can be divided in a number of different ways; by ownership, scale of operation, proximity to raw material supply, forest harvesting rights, etc. In terms of the manufacture of goods with the right environmental and legal quality attributes, the most critical issue is for the mill to have an integrated raw material supply.

Large Scale Manufacturers

The majority of large-scale manufacturers, if not already FSC or PEFC or MTCC certified, will have had their raw material supplies contracted for the near to medium term. If and when the EU FLEGT VPA (see box below) licensing scheme is implemented, these organisations, if based in a Voluntary Partner country, will be first in line to receive permission to export. Large mills that do not have secured raw materials supplies will find it increasingly difficult to source timber from forests that classify as legal or sustainable.

International Plywood already has and wishes to maintain business relationships with mills of this type. Finding new mills to source from in this category will become increasingly important as the competition for Product increases. Large mills are more likely to face difficulties of continuing to source sufficient log raw material volumes with the right environmental quality. These difficulties will increase with time, particularly if the mills are not directly linked with a major source forest and are forced to buy raw material on the open market. Large mills are often highly geared in terms of finance and the pressure to maximise volume throughput is high. In such circumstances their log procurement managers are potentially more focused on procuring sufficient volumes and much less selective with regard to environmental quality.

EU FLEGT

The EU Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT) is the European Union's response to the global problem of illegal logging and the international trade in illegally-harvested timber.

The FLEGT Action Plan was adopted by the European Commission in May 2003 as part of the EU's response to the call for action at the World Summit on Sustainable Development. The Action Plan sets out a new and innovative approach to tackling illegal logging, linking good governance in developing countries with the legal trade instruments and leverage offered by the EU's internal market.

At the core of the Action Plan are Voluntary Partnership Agreements (VPA's) with timber-producing countries that wish to eliminate illegal timber from their trade with the EU. These agreements will involve the establishment of a licensing scheme to ensure that only legal timber from producing countries ("Partner Countries") is allowed into the EU. Unlicensed consignments from Partner Countries would be denied access to the European market under the scheme.

The agreements are voluntary. This means that Partner Countries can decide whether or not to sign up, although once they do so the licensing scheme is obligatory.

Member States are engaged in preliminary discussions leading to negotiations with potential partner countries. Most recently the UK has been involved in initial consultations with Ghana and Malaysia. For more information visit: www.dfid.gov.uk/eupresidency2005/flegt.asp

Medium Scale Integrated Mills

Mills that have secured forest resources have a significant advantage over those that buy on the open market. Medium scale integrated mills are much less likely to have to buy raw material from an unknown source on the open market than large scale mills. There are still likely to be mills of this structure that are not yet part of the well established group that already sell to the EU, and are therefore not yet subject to restrictive commercial contracts with importers. These are the mills that will become certified over the next few years and may be in the second tier of mills to become licensed under the VPA scheme enabling them to export to the EU.

For International Plywood, medium sized mills that have their own dedicated source of raw material are the suppliers presenting an opportunity for future co-operation. These are the mills that will get certified and will get licensed to export when VP agreements are signed. These are the mills that are most likely to be highly conscious of the environmental quality of the raw material that they purchase. Most importantly, these are the mills that will be most interested in entering into a long-term strategic alliance with an EU based distributor such as International Plywood.

Mills of all sizes that are forced to buy on the open market

If a mill is not part of an integrated operation with direct links to a forest for 100% of its supplies, it has to buy logs on the open market. In order to sell certified product (certified for sustainability or legality) or licensed material (under any recognised VPA programme) then each of the source forests has to be certified or licensed. In addition there has to be a fully operational traceability system running from each source forest to the mill. Whilst by no means impossible to do, it does place a significantly greater administrative burden on those responsible for the procurement of raw materials for the mill.

It is difficult for mills with this type of log procurement strategy to ever provide certified material because of the number of other parties involved. To make this sourcing approach function in terms of guaranteeing environmental quality, there has to be serious co-operation from all the log suppliers. One of International Plywood's aims is to ultimately cease buying from mills with this type of raw material sourcing profile.

4. Selling To International Plywood (Importers) Ltd.

The ultimate aim of International Plywood (Importers) Ltd is to only buy and supply independently certified panel products. Currently, this is impractical as there are insufficient volumes of sheet materials with the right environmental qualities available in the international market place. Much of what there is cannot be supplied at a price that end-users would be prepared to pay. International Plywood therefore is committed, when buying non-certified panel products, to carrying out all the appropriate checks to make sure these products meet *legal quality* requirements as a minimum. International Plywood is a signatory to the UK Timber Trade Federation's "Responsible Purchasing Policy" as well as seeking to only supply panel products that are fully compliant with CPET rules and satisfy the new FSC Policy for Association with FSC.

In the first instance, panel product Suppliers who wish to sell to us must complete the relevant questionnaires, which can be downloaded from our website. There are 2 questionnaires; Questionnaire 1 is for CERTIFIED Products, Questionnaire 2 is for NON-CERTIFIED products. Both are available for downloading from our websites:

www.plywooduk.com www.internationalpanelproducts.com www.panelsupplies.co.uk

Completed questionnaires should then be sent to:

International Plywood (Importers) Limited,
Innsworth Technology Park,
Innsworth Lane,
Gloucester,
GL3 1DL,
United Kingdom

Or email: steve@plywooduk.com

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Definitions of 'Illegal Timber'*

Organisation	Definition	Reference
American Forest Products Association	Theft of timber or logs, cutting in parks, reserves or similar areas, and cutting where government approvals are obtained by corrupt practices	'Illegal logging and Global Wood Markets: The competitive impacts on the US wood products industry. Commissioned by American Forest and Paper Association. Prepared by Seneca Creek Associates. November, 2004.
European Commission	Harvesting timber in violation of national laws is illegal. Illegal harvesting may include not only harvesting practices that contravene the regulations but also using corrupt means to gain harvesting rights, extraction without permissions or from protected areas, cutting protected species or extraction of timber in excess of agreed limits. Beyond harvesting, illegal processing and export, non-payment of taxes or charges, and mis-declaration to customs.	Briefing Note Number 03. FLEGT Briefing Notes, European Commission, April, 2004.
Greenpeace	Illegal logging takes place when timber is harvested, processed, transported, bought or sold in violation of national laws. Laws can be violated at many different stages of the supply chain and can include: <ul style="list-style-type: none"> • Obtaining concessions illegally (for example, via corruption and bribery) • Cutting protected tree species or extracting trees from a protected area • Taking out more trees, under sized trees, oversized trees than is permitted or trees outside an agreed area • Illegal processing and export • Fraudulent declaration to customs of the amount of timber being exported • Non payment or under payment of taxes • Use of fraudulent documents to smuggle timber internationally. 	Lawless: How Europe's Borders Remain Open to Trade in Illegal Timber (Greenpeace Fact File - October 2005)
Malaysian Timber Council	In Peninsular Malaysia, three categories are used to classify forest offences. <u>Category 1</u> covers offences involving logging without license, logging outside licensed area and unauthorized construction of infrastructure and forest roads. <u>Category 2</u> covers encroachment of forest reserves for agricultural activities and settlement. <u>Category 3</u> covers other forest offences that involve felling of unmarked trees, cutting trees below the cutting limit, unlicensed workers, contractors with no valid sub-license, unregistered machinery plus other breaches of rules and regulations committed within and outside the forest reserve.	Copyright © 1992-2004 Malaysian Timber Council 18th Floor Menara PGRM, 8 Jalan Pudu Ulu, Cheras 56100 Kuala Lumpur, Malaysia
Supreme Court Decision in Russia	Illegal forest felling operation (cutting) is cutting of trees, bushes and lianas without a harvesting license, order or cutting with a harvesting license, order issued with abuse of the existing cutting-practice rules, as well as cutting carried out at the wrong site or beyond a site's borders, exceeding the set quantities; cutting of wrong species or of trees, bushes and lianas that are not a subject to felling ticket, order, before and after logging period fixed in felling ticket, order, logging of trees, bushes and lianas that are forbidden to log according to Resolution No.155 of the Government of the Russian Federation June 1, 1998, or after the announcement of the decision about temporary prohibition, restriction or complete discontinuance of forest user activities or the right to use forest area.	Resolution No.14 of the Russian Federation Supreme Court from November 5, 1998 (The definition is related to the application of Article 260 of the Criminal Code of the Russian Federation).
World Business Council on Sustainable Development	<ul style="list-style-type: none"> • Sourcing of illegal wood takes place when unprocessed wood is procured in the absence of the seller's legal right to sell or harvest. • Illegal logging takes place when timber is harvested in violation of relevant forestry and environmental laws and regulations. • Illegal forest products trade involves the procurement, processing, distribution and marketing of products made from wood that has been obtained by illegal sourcing or illegal harvesting and/or are not in compliance with relevant national and international trade laws. 	WWF/WBCSD Joint Statement on Illegal Logging for The Forest Dialogue (March 2005)
World Wide Fund for Nature	When timber is harvested or traded in violation of relevant national or sub-national laws or where access to forest resources or trade in forest products is authorised through corrupt practices.	
* From WWF's <i>Keep It Legal Manual</i> (Published Oct , 2006)		

Environmental Policy 2009

Panel Supplies recognises that it has a responsibility to the environment and will endeavour to carry out business in ways that are as “environmentally friendly” as possible.

- 1) The Company will not knowingly act in ways which damage the environment or engage in activities which promote such damage by its suppliers or sub-contractors.
- 2) As an ISO 9001:2000 approved organisation, Panel Supplies regularly appraises its suppliers to ensure their products and service meet the exacting standards demanded by the Company. Where appropriate a supplier’s environmental policy is investigated before approval to supply the Company is granted.
- 3) The Company will encourage its staff, suppliers and sub-contractors to adopt sound environmental practices and will promote energy efficiency and waste minimisation. Furthermore, all Company staff will be empowered to review their activities within the business in order to improve the performance of the Company in this respect.
- 4) The Company will not knowingly purchase goods which are illegally produced or which are manufactured contrary to current legislation. Wherever possible the Company will source its supplies of panel products from manufacturers which have achieved 3rd party certified approval, such as FSC/PEFC/MTCC or which are known to obtain their raw materials from verifiable well managed forests.
- 5) The Company will comply with all current legislation regarding the disposal of waste materials and packaging and will ensure that only approved sub-contractors are employed to carry out the removal and safe disposal of such waste in an environmentally responsible manner.
- 6) The Company will provide a safe working environment for its staff and will comply with all relevant legislation relating to a workplace. All staff will be provided with the necessary training and information to enable them to carry out their duties in a safe and environmentally responsible manner.
- 7) The Company will review its environmental policy on a regular basis to ensure that it continues to comply with all relevant legislation.

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Responsible Forest Products Purchasing Policy 2009

Panel Supplies is committed to the responsible purchasing of forest products. Our long term intention is to source all forest products that we purchase from well-managed forests that have been certified to credible certification standards. This commitment will be realised through a stepwise approach to responsible purchasing that utilises the best available techniques and information.

Panel Supplies will abide by all relevant national legislation and international conventions (such as CITES) relating to our purchases of forest products and we will never knowingly purchase products which have been manufactured from illegally sourced materials.

Furthermore, Panel Supplies will not knowingly source forest products from;

- Suppliers that do not comply with all relevant national legislation relating to the trade in forest products, or who source products from forest areas that are protected or have high conservation value unless the forests are progressing towards credible forest certification in a time-bound, stepwise and transparent manner.
- Suppliers that operate in forests which are in areas of armed conflict or civil unrest where there is a direct relationship between the suppliers business and the funding of the conflict.

To ensure that these goals are achieved, Panel Supplies will;

- Appoint a Director to be responsible for the implementation of our Responsible Purchasing Policy.
- Assess all of our suppliers to ensure that the purchase of their products does not breach our purchasing policy and encourage them, wherever possible, to actively engage in a process of time-bound, transparent, stepwise commitment to credible certification.
- Continually monitor our level of compliance with our purchasing policy.
- Carry out an annual review and produce written reports detailing our activities. Analysis of these reports will enable us to monitor our progress towards our long term goals and set targets for further improvements.
- Work with our suppliers and encourage the promotion of best practice in all aspects of our business relationships.