

**Additional breakdown of the UK administrative company costs used in the Impact Assessment for DEFRA: Due diligence in the EU timber market**

**UK impact assessment of the European Commission's proposal for a regulation laying down the obligations of operators who place timber and timber products on the market**

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by

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## 1 Introduction

This paper consists of additional administrative breakdown costs for the UK Due Diligence impact assessment with regard to the proposed Due Diligence in the EU Timber Market legislation and should be seen as an annex to the previous papers. The purpose of this breakdown is to assist the evaluation of whether the auditing process within the proposed Due Diligence legislation should be a mandatory third party auditing process.

The auditing costs vary according to the scenario and are as follows:

- Scenario 1 figures do not include an auditing cost
- Scenario 2:

	<b>Set up Audit Cost (GBP)</b>	<b>Annual Audit Cost (GBP)</b>
<b>Large Company</b>	0	1,500
<b>SME<sup>1</sup> Company</b>	0	750

- Scenario 3:

	<b>Set up Audit Cost (GBP)</b>	<b>Annual Audit Cost (GBP)</b>
<b>Large Company</b>	2,000	2,000
<b>SME Company</b>	2,000*	1,500
<b>UK Sourcing**</b>	500	500

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<sup>1</sup> SME is a Small or Medium sized Enterprise.

\*Larger costs are assumed for SMEs for the set up audit costs due to the assessment of the work involved

\*\*Where companies are assumed to solely source or are only 'first placers' for UK wood products the audit cost is assumed to be lower than imported products.

**Notes:**

The auditing figures for Scenario 2 and 3 are indicative as the costs are dependent on a number of factors such as the breadth of relevant products that the company acts as a 'first placer' for, whether the company uses a joint chain of custody system, if the company is part of a group scheme, auditor selection and price negotiation. Scenario 2 audit costs will further depend upon whether a company has joined a membership scheme or if they are implementing an individual due diligence system.

The numbering of the tables within this annex has been kept the same as the main paper to allow for easy reference.

## 2 Overview

### 2.1 Summary

Table 2.1: Summary of the administrative breakdown costs for all product groups\*

<b>Summary Table</b>		<b>Admin time cost (000 GBP)</b>			<b>Audit cost (000 GBP)</b>		
		<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>
<b>Annual cost</b>	Large companies administration	551	1,195	1,106	0	270	366
	SME administration	6,366	25,476	12,774	0	3,099	6,226
<b>One-off set up cost</b>	Large companies administration	158	370	606	0	0	362
	SME administration	2,013	4,280	6,946	0	0	8,291
<b>Total</b>		<b>9,088</b>	<b>31,321</b>	<b>21,432</b>	<b>0</b>	<b>3,369</b>	<b>15,245</b>

\*These figures include the furniture administration costs from the first impact analysis (table 4.6a) and do not include the figures from Table 4.6b to avoid duplication.

Scenario 1 has no audit costs and Scenario 3 has the highest audit costs. The administration time costs for all Scenarios would be expected to reduce over time as efficiency and experience increase within companies.

#### 4 Breakdown of administrative costs within the impact assessment by wood product sub-sector

##### 4.1 Softwood logs, sawnwood and veneer

Table 4.1: Annual administrative costs plus set-up costs for softwood logs, sawnwood and veneer

<b>Softwood Logs, Sawnwood and Veneer</b>							
		<b>Admin time cost (000 GBP)</b>			<b>Audit cost (000 GBP)</b>		
		<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>
<b>Annual cost</b>	Large companies administration	9	20	15	0	5	10
	SME administration	80	321	182	0	39	95
<b>One-off set up cost</b>	Large companies administration	3	6	10	0	0	6
	SME administration	25	54	129	0	0	121
<b>Total</b>		<b>117</b>	<b>401</b>	<b>335</b>	<b>0</b>	<b>44</b>	<b>231</b>

##### 4.2 Hardwood logs, sawnwood and veneer

Table 4.2: Annual administrative costs plus set-up costs for hardwood logs, sawnwood and veneer

<b>Hardwood Logs, Sawnwood and Veneer</b>							
		<b>Admin time cost (000 GBP)</b>			<b>Audit cost (000 GBP)</b>		
		<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>
<b>Annual cost</b>	Large companies administration	37	80	77	0	18	26
	SME administration	92	370	193	0	45	96
<b>One-off set up cost</b>	Large companies administration	11	25	45	0	0	26
	SME administration	29	62	115	0	0	126
<b>Total</b>		<b>169</b>	<b>537</b>	<b>430</b>	<b>0</b>	<b>63</b>	<b>274</b>

### 4.3 Plywood and board products

No additional information

### 4.4 BJC products

Table 4.4: Annual administrative costs plus set-up costs for builders' joinery and carpentry (BJC) products

<b>Builders Joinery and Carpentry (BJC)</b>							
		<b>Admin time cost (000 GBP)</b>			<b>Audit cost (000 GBP)</b>		
		<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>
<b>Annual cost</b>	Large companies administration	231	501	465	0	113	152
	SME administration	512	2,047	1,031	0	249	504
<b>One-off set up cost</b>	Large companies administration	66	155	255	0	0	152
	SME administration	162	344	568	0	0	670
<b>Total</b>		<b>971</b>	<b>3048</b>	<b>2319</b>	<b>0</b>	<b>362</b>	<b>1478</b>

Table 4.5: Annual costs for flooring products

No additional analysis.

#### 4.5 Wooden furniture

Table 4.6a: Annual administrative costs plus set-up costs for wooden furniture

Furniture							
		Admin time cost (000 GBP)			Audit cost (000 GBP)		
		Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
<b>Annual cost</b>	Large companies administration	154	334	308	0	75	100
	SME administration	5,394	21,585	10,792	0	2,625	5,250
<b>One-off set up cost</b>	Large companies administration	44	104	166	0	0	100
	SME administration	1,706	3,626	5,823	0	0	7,000
<b>Total</b>		<b>7,298</b>	<b>25,648</b>	<b>17,090</b>	<b>0</b>	<b>2,700</b>	<b>12,450</b>

This table shows the original administrative data from the original Chatham House paper.

Table 4.6b: Annual administrative costs plus set-up costs for wooden furniture using the revised sensitivity analysis data

Furniture							
		Admin time cost (000 GBP)			Audit cost (000 GBP)		
		Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
<b>Annual cost</b>	Large companies administration	564	1,223	1,129	0	275	366
	SME administration	4,169	16,682	8,341	0	2,029	4,058
<b>One-off set up cost</b>	Large companies administration	44	379	609	0	0	366
	SME administration	1,318	2,802	4,501	0	0	5,410
<b>Total</b>		<b>6,095</b>	<b>21,086</b>	<b>14,579</b>	<b>0</b>	<b>2,303</b>	<b>10,200</b>

The number of companies was revised under the additional Scenario 2 sensitivity analysis. These revised figures at the medium (50% due diligence) level have been used to develop an alternative administrative cost breakdown table for furniture.

#### 4.6 Other products

Table 4.7: Annual administrative costs plus set up costs for 'other' wood products

Fuelwood, charcoal, frames, boxes and barrels							
		Admin time cost (000 GBP)			Audit cost (000 GBP)		
		Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
<b>Annual cost</b>	Large companies administration	105	227	210	0	51	68
	SME administration	211	845	422	0	103	206
<b>One-off set up cost</b>	Large companies administration	30	70	113	0	0	68
	SME administration	67	142	228	0	0	274
<b>Total</b>		<b>413</b>	<b>1,284</b>	<b>973</b>	<b>0</b>	<b>154</b>	<b>616</b>

This data was not available in the first 'Chatham House' version of the impact assessment but is included here for completeness using the Scenario 2 company numbers at the medium (50% due diligence) level.

#### 4.7 Pulp and paper

Table 4.8: Annual administrative costs plus set-up costs for pulp and paper products

Pulp, paper, corrugated paper and paperboard							
		Admin time cost (000 GBP)			Audit cost (000 GBP)		
		Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
<b>Annual cost</b>	Large companies administration	15	33	31	0	8	10
	SME administration	77	308	154	0	38	75
<b>One-off set up cost</b>	Large companies administration	4	10	17	0	0	10
	SME administration	24	52	83	0	0	100
<b>Total</b>		<b>121</b>	<b>404</b>	<b>285</b>	<b>0</b>	<b>45</b>	<b>195</b>

