



Holzindustrie **Schweighofer**

Explained: Our timber supply chain



Explained: Our timber supply chain

In July 2018 a report questioning Holzindustrie Schweighofer's (HS) supply chain security architecture in Romania was published by EIA¹. The report raises concerns regarding log transports via log yards.

The report states: "Environmental Investigation Agency (EIA) has found that the Austrian timber giant Holzindustrie Schweighofer (Schweighofer) is still sourcing timber from Romania's national parks, despite over five years of public pledges not to do so. Schweighofer still buys nearly half of its Romanian log purchases from third party log yards. For this wood it lacks traceability back to the forest origin, and is unable to exclude timber from illegal sources, or from national parks or other protected areas."

The following document explains Holzindustrie Schweighofer's security architecture and due diligence system and brings proofs against the above mentioned allegations.

Timber from uncertain sources or from National Parks is banned from entering the company's supply chain

Holzindustrie Schweighofer, one of Europe's leading wood processors, with three saw mills and two panel factories in Romania, introduced an extensive action plan for a sustainable timber industry in Romania since January 2017. The company has no harvesting activities and only purchases raw material from authorized and legal suppliers. Moreover, the company has made a voluntary commitment not to process any wood originating from national parks. This commitment also includes areas of national parks in Romania ("buffer zones") where harvesting is explicitly permitted by law. Holzindustrie Schweighofer has invested a total of over €1 million in this security architecture, which the company continuously improves in close consultation with the public and environmental NGOs.

¹https://content.eia-global.org/posts/documents/000/000/763/original/EIA_Romania_2018_Final_EN-web.pdf?1531791813



Direct wood deliveries and deliveries via log yards

Holzindustrie Schweighofer's due diligence system is effective for both direct wood deliveries from the place of harvesting to the mills, as well as for wood that is first transported to log yards and then delivered to the company's mills. The forestry and logging sector and the wood products manufacturing sectors in Romania employ 57,000 and 71,000 persons respectively, but the number of additional jobs created/maintained is larger due to the multiplying effect on the rest of the economy².

Log yards in Romania

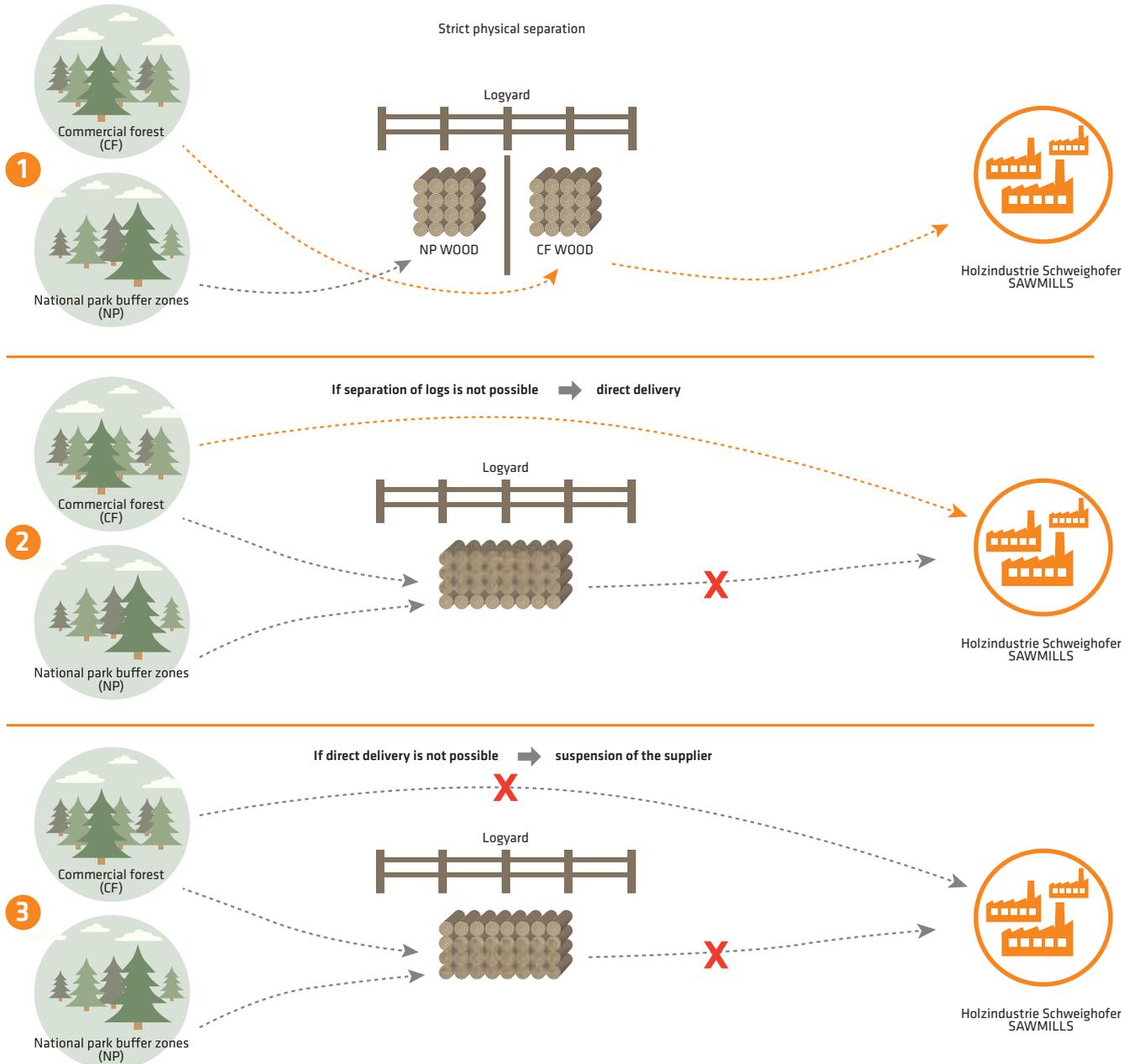
Log yards are part of Romania's timber industry. Due to the underdeveloped forest road infrastructure, log yards are used as platforms where harvested wood is sorted, split by assortments and afterwards delivered to various customers. One of the main principles of the Holzindustrie Schweighofer's Timber Sourcing Policy³ is to make sure that no wood from national parks gets mixed with wood that the company purchases from these log yards.

Holzindustrie Schweighofer has a well-designed due diligence system for these log yards in place:

- Every supplier must disclose all sources of wood procurement, including the harvesting permit (APV). This means that every supplier has to prove exactly from which forest plot their incoming loads originate. As soon as Holzindustrie Schweighofer's supply chain experts learn that wood from national parks is traded from a log yard (which is perfectly legal for material coming from management areas of the parks), the company has in place certain procedures in order to exclude this material from its own supply chain (physical separation, up to temporary suspension of the supplier).
- The log yard operator can only supply Holzindustrie Schweighofer during this blocking period if he has other harvesting locations outside of national parks and the deliveries go to the company's mills and are monitored via Timflow.
- All deliveries from a log yard to Holzindustrie Schweighofer's mills are also tracked using Timflow.

The company's suppliers are of course informed that Holzindustrie Schweighofer does not accept wood from national parks. This is clearly stipulated in the purchasing contracts. All suppliers are constantly checked to ensure compliance with this regulation.

SCHWEIGHOFER SYSTEM FOR LOG YARDS IMPLEMENTATION OF THE NATIONAL PARK POLICY



Other important facts related to the matter:

- The Zero Timber from National Parks Policy is part of Holzindustrie Schweighofer timber sourcing policy and published on www.schweighofer.at;
- All purchasing contracts, as well as the supplier confirmations, contain a mandatory clause on the compliance with this policy; by signing the contract, the supplier agrees to comply with this policy and **not to deliver material from National Park buffer zones**;
- In line with HSR's environmental commitments, transposed into the company's purchasing policy, suppliers are excluded in the event of non-compliance with the company's purchasing policy;
- Every truck delivering Romanian saw logs to the company's sawmills is equipped with a GPS device "Timflow", which proves the logs' exact loading place. The results are publicly accessible at www.timflow.com.
- "Open doors policy" for NGOs: in line with its commitment towards transparent communication, Holzindustrie Schweighofer has implemented an open door policy for NGOs.
- Improved stakeholder consultation: Holzindustrie Schweighofer is in close contact with environmental NGOs and takes their criticism and input seriously.

In addition to the company's due diligence system and security architecture, Holzindustrie Schweighofer's factories were inspected 11 times in accordance with the EU Timber Regulation (EUTR). The authorities verified whether only legally harvested timber is placed on the European Single Market by Holzindustrie Schweighofer. All of the 11 inspections, conducted starting with 2015 at the premises of the Holzindustrie Schweighofer plants in Romania showed that the company's sawmills fully comply with the EUTR.

It is further important to emphasise that:

- Holzindustrie Schweighofer processes just coniferous species; many of the most precious Romanian ancient forests are broadleaved or mixed forests;
- Holzindustrie Schweighofer processes logs with an average diameter of 23 cm in the middle of the log; primeval forest giants cannot be processed by Holzindustrie Schweighofer;
- Holzindustrie Schweighofer currently buys Romanian logs corresponding to only 6% of the annual Romanian harvest;
- Holzindustrie Schweighofer imports currently up to 70% of its logs from other European countries to Romania.
- Romanian forests are continuously growing in stock and size according to statistics published by the Romanian National Institute of Statistics⁴ and the FAO⁵. A campaign which continuously states the contrary is irresponsible.
- Virgin forests are at threat in Romania; Holzindustrie Schweighofer shares these concerns of several Romanian NGOs and supports projects to speed up the mapping process in order to facilitate their effective and long term preservation. The project was developed by GRAS – Global Risk Assessment Service GmbH (www.gras-system.org).

It needs to be mentioned that, so far, Holzindustrie Schweighofer is the only company in the softwood sector from which EIA is requesting full physical traceability. All invitations to EIA to visit our operations and to convince themselves on the effectiveness of the Holzindustrie Schweighofer security and risk mitigation systems remained unanswered. We reiterate this invitation and hope to find a constructive discussion aside unjustified allegations.

Apart from remaining open to stakeholder input, we see the need for answering the report in detail also in order to strengthen the confidence of our customers in Holzindustrie Schweighofer compliance performance.

⁴<http://apepaduri.gov.ro/wp-content/uploads/2014/07/Raport-starea-pa%CC%86durilor-2016.pdf>; <http://www.insse.ro/cms/ro/content/statistica-activit%C4%83%C5%A3ilor-din-silvicultur%C4%83-%C3%AEn-anul-2017>; <http://www.roifn.ro>
⁵<http://www.fao.org/3/a-i4808e.pdf>



**Measures for a
transparent supply chain**

Illegal Timber vs. illegally Harvested Timber - A question of terminology

The EIA-document refers several times to “illegal” timber. This gives the impression that illegal timber is in any case illegally harvested timber and automatically related to criminal activities.

The legal system addresses the levels of non-conformant activities through branches of the law. Minor formal non-conformities are handled within administrative law (authorities impose fines, withdraws licenses, etc.). More serious issues are considered misdemeanours. And major violations (such as illegal harvesting, or property offences) are handled by criminal law.

The Romanian forest sector is highly regulated and penalties for even minor formal mistakes can be grave.

Example A:

The volume of timber on a truck has to be within a 2%-interval⁶ with the volume entered in the way bill. This is a rather small tolerance for a volume of naturally shaped logs, which is determined by hand with the help of forest callipers. But in case of mistakes, the entire load would be considered “illegal”. There is hardly one country in Europe that fines such deviations.

Example B:

For each harvesting plot, the area of loading the logs is predefined months or even years in advance. But weather and road conditions (e.g. snow) sometimes prevent the highway-log truck to reach these predefined loading sites. If the logging company would use tractors and horses to drag the logs to an easier to reach loading site, the entire volume of timber would be considered to be “illegal”.

In both cases, the forest is unharmed. No damage was done. Harvesting was fully authorized and correct. But the Romanian law would even allow for the seizure of the entire volume of timber in examples A and B.

The judiciary terminology in Romania does not differentiate between “criminal” activities (like illegal logging, stealing wood, or damaging the environment) and mere formal violations that cause no damage.

⁶depending on the number of pieces the tolerance interval can be extended to +/-3% or +/-4%

EIA statement

While many European buyers have stopped purchasing products from Schweighofer, Japanese buyers, who make up around half of Schweighofer's exports, continue to fuel illegal logging through their ongoing purchases from Schweighofer.

FACT

Holzindustrie Schweighofer distances itself from any form of illegal harvesting activities of suppliers. The company does not fuel nor accept such practices.

Many of our customers as well as other stakeholders discussed with us the allegations raised by EIA. We invited all of our customers to visit our mills and established an open-doors policy that allows NGOs for unannounced inspections⁷. So far, EIA did not accept this invitation. However, we have received many customers from Asia, Europe and America in our mills, and showed them our due diligence measures. All of our guests expressed their appreciation of the implemented measures and retained the business with us.



EIA statement

Schweighofer lumber competes directly with domestic Japanese cypress in Japan's house-building market, but Schweighofer's imported lumber is cheaper, in part because of illegal logging.

FACT

Holzindustrie Schweighofer strongly opposes to this argument and clearly states that the company is not dealing with illegally harvested material.

Additionally Japanese market data proves the EIA statement to be inaccurate. Romanian timber is sold in Japan with a premium compared to local production⁸. This is due to the better mechanical properties of European timber species and our highly efficient and quality-oriented production following the approach of "perfection in timber". In addition, due to the conditions of the Romanian wood market, Romanian logs are among the most expensive in the whole of Europe.



⁸See e.g. Japan Lumber Market No 723 published by the Japan Forest Products Journal



EIA statement

Romania's forests have suffered over a decade of mismanagement and neglect to feed foreign demand for cheap wood.

FACT

According to statistics published by the Romanian National Institute of Statistics⁹ and the FAO¹⁰, the forested surface in Romania is growing. EIA does therefore not specify what is meant by “suffering”.

Holzindustrie Schweighofer commits to the protection of high conservation values and supports this. We are the first company in Romania that excluded timber from Romanian National Parks from our supply chain, even though harvesting in National Parks can be legal in some cases.

The implementation of Timflow (the GPS-based wood tracking system used only by Holzindustrie Schweighofer in Romania) red-flags timber transports that originate in National Parks. On top of that, Holzindustrie Schweighofer supports the “Tomorrow's Forests” planting initiative¹¹ that finances reforestation of degraded forest land with one million trees.

TIMFLOW
Wood Tracking

⁹<http://apepaduri.gov.ro/wp-content/uploads/2014/07/Raport-starea-pa%CC%86durilor-2016.pdf>; <http://www.insse.ro/cms/ro/content/statistica-activit%C4%83%C5%A3ilor-din-silvicultur%C4%83-%C3%AE-n-anul-2017>; <http://www.roifn.ro>

¹⁰www.fao.org/3/a-i4808e.pdf

¹¹www.padureademaine.ro



EIA statement

In 2014, undercover investigators from the Environmental Investigation Agency (EIA) met with officials from Holzindustrie Schweighofer (Schweighofer), an Austrian company which is the largest wood processor in Romania. EIA wanted to understand how the widespread illegal logging that local Romanian media and NGOs had documented for years could continue unabated, and where the vast quantities of illegal wood ended up. The answer was simple. When EIA offered to supply Schweighofer with illegal logs, company officials replied, “no problem” – in two separate in-person meetings and also over email.

FACT

Holzindustrie Schweighofer conducted an internal investigation¹² and firmly rejects this allegation. It is our understanding that the video was intentionally cut in order to suggest culpable behaviour. To this date, EIA continues to refuse releasing the complete (uncut) track of the footage.

¹²The incriminated manager was immediately suspended. Despite not finding evidence of illegal behaviour, Holzindustrie Schweighofer eventually separated from that manager for other reasons. Holzindustrie Schweighofer has a notarially certified affidavit of the incriminated manager in its records.

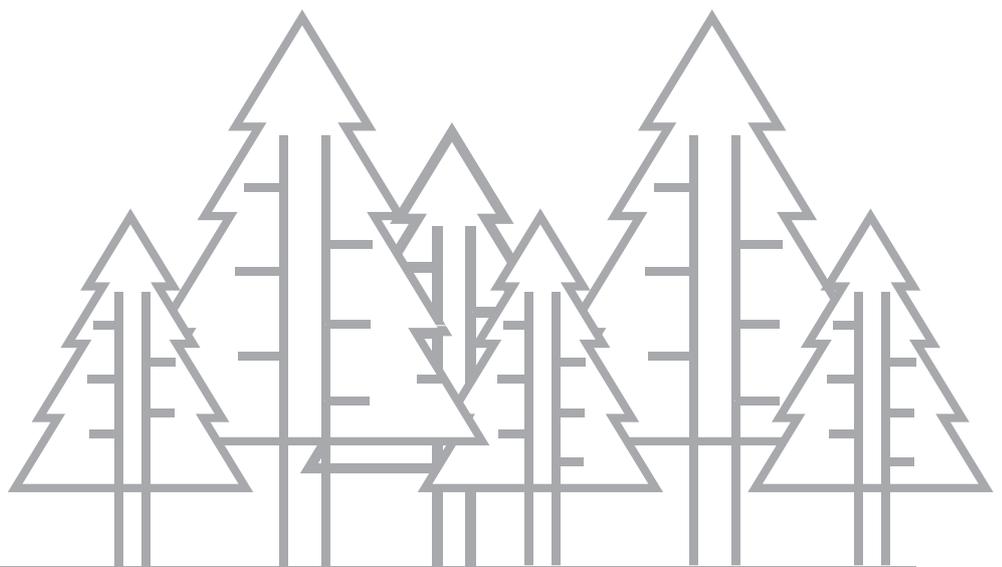
EIA statement

The company announced a series of changes to its sourcing policies and has dropped its purchases of Romanian logs from 2.3 million cubic meters in 2013 to 1.2 million m³ in 2017.

FACT

It is worth noting that the large decrease in Romanian-sourced timber was not caused by Holzindustrie Schweighofer's changes in the sourcing policies but it was an effect of massively increasing prices and declining availability of domestic supply generated by high starting prices of the State Forest at its public auctions.

Currently, up to 70% of wood processed by Holzindustrie Schweighofer in Romania is imported from other European countries.



EIA statement

In May 2018, Romania's anti-organized crime police raided Schweighofer mills and suppliers, accusing Schweighofer employees of taking part in criminal networks to obtain illegal timber, and of defrauding the Romanian state of at least 25 million euro.

These actions have created a moment of respite for Romania's forests, but the lasting impact remains uncertain. The Romanian government's investigation remains in progress, and prosecutors have not yet filed formal charges.

FACT

Holzindustrie Schweighofer is fully cooperating with the authorities as it is in its own interest to have clarity as soon as possible. There are no grounds for suspicion against the company. Only a few employees are suspected of having been involved in possible criminal acts.



EIA statement

Schweighofer's imports of timber into Romania have increased significantly to 1.6 million m³, much of this from neighbouring countries with high levels of corruption, including Ukraine and Belarus, and from countries with large areas of sensitive forest habitats such as Slovakia. Since 2016, Romania's government has reversed course on transparency, and has removed key data from the Forest Inspector website and mobile app.

FACT

All deliveries are subject to the Holzindustrie Schweighofer due diligence system. In Romania, Holzindustrie Schweighofer introduced Timflow (GPS tracking) in order to make deliveries completely transparent and to complement the state controlled SUMAL-system. All other due-diligence measures are applied consistently in all purchasing regions. This applies of course also to countries like Slovakia and Ukraine, whereas in Ukraine there is a sawlog export ban in place which makes it impossible to import logs from this country.

EIA mentions the Romanian Government's reversed course on transparency and tries to create a misleading association between the claimed reduction of transparency and Holzindustrie Schweighofer. EIA ignores that simultaneously to the decreased accessibility of the SUMAL data for the public¹³, Holzindustrie Schweighofer's www.timflow.com website provided more than 30,000 datasets of transports including GPS-track, pictures and detailed information about the transport documents. This puts Holzindustrie Schweighofer in the leadership of traceability, which was recognized by another locally active NGO (Agent Green), who put Holzindustrie Schweighofer in first place in a comparison of security systems against illegal logging in March 2018¹⁴.

¹³Via www.inspectorulpadurii.ro

¹⁴Details:

https://www.schweighofer.at/no_cache/en/press/news/detail/holzindustrie-schweighofer-environmental-ngo-agent-green-acknowledges-quality-improvement.html

EIA statement

In Romania, Schweighofer has sold off much of its forest lands and most of its own log yards, thereby shifting responsibility for legal and sustainable harvesting more and more to third-party log suppliers.

FACT

The Schweighofer Group's forest property in Romania was divested for business reasons. The divestment did not have any consequences whatsoever for the due diligence procedures in Holzindustrie Schweighofer's log supply. For all its deliveries, Holzindustrie Schweighofer remains fully accountable concerning the proof of legality of origin and harvesting.

Holzindustrie Schweighofer obliges its suppliers to comply with the strict requirements of its timber sourcing policy.

Contrary to the report statement, only two log yards were closed (not sold) in 2016 and 2017.



EIA statement

A 2005 scientific survey estimated that Romania contained two-thirds of Europe's last remaining virgin forests, totalling around 300,000 hectares. Recent analyses are still ongoing, but forecasts are pessimistic. Researchers estimate that the 2018 total will be closer to 100,000 hectares. Illegal and uncontrolled logging has played a large part in these declines – fuelled by a no-questions-asked demand for timber and biomass in Europe and abroad. The lack of traceability within Romania's timber sector means that foreign buyers continue to unknowingly fuel the ongoing destruction of Europe's last great forests.

FACT

EIA refers to the so called PIN MATRA study that was conducted mutually with state authorities and NGOs (e.g. WWF) in 2005.

Any harvesting action in PIN MATRA areas must be preceded by a confirmation by the state's Forest Guard that the concerning area is not virgin forest. This procedure is laid down in the law¹⁵ and prevented the disappearance of virgin forests.

In order to generate a comprehensive catalogue of virgin forest, the Romanian Government plans to contract independent experts to assess all areas proposed to be included in the "Catalogue of Virgin forests". The current catalogue is available online¹⁶.

Until now the following areas have been already verified:

- 5,898.92 ha of virgin forests;
- 14,422.18 ha of quasi-virgin forests;

The catalogue is expected to be finalized by the end of 2018.

However, Holzindustrie Schweighofer acknowledges that the identification of the virgin forests still could be improved in Romania. This is the reason why Holzindustrie Schweighofer financed the development of a methodology based on satellite imagery to identify potential virgin forest areas in Romania as a basis for further designation work on the ground. The project was carried out by GRAS - GRAS Global Risk Assessment Services GmbH (www.gras-system.org).

¹⁵<https://lege5.ro/Gratuit/gmzdsrwwgi/ordinul-nr-3397-2012-privind-stabilirea-criteriilor-si-indicatorilor-de-identificare-a-padurilor-virgine-si-cvasivirgine-in-romania>.

¹⁶<http://apepaduri.gov.ro/wp-content/uploads/2014/07/Catalog-paduri-virgine-si-cvasivirgine-martie-2018.xlsx>

EIA statement

Schweighofer claims that all timber entering its mills has legal origin, thanks to its recently introduced due diligence procedures.

FACT

It should be clarified that Holzindustrie Schweighofer's security architecture was not recently introduced, but it has been continuously improved also with assistance and consultation from civil society organizations. The due diligence procedures were already in place in 2015 and before and formed an important part of the Schweighofer Action Plan.

EIA statement

The first step in due diligence is information gathering in order to assess what risks are associated with a specific supply chain. For nearly half of Schweighofer's Romanian supply chain, namely the logs that it buys from third-party log depots, the company has little control or knowledge over where and how these logs are harvested. This large gap in its supply chain makes it impossible for Schweighofer to guarantee legality, much less sustainability, of sourcing.

FACT

Contrary to the report, Holzindustrie Schweighofer conducts more than 400 on-site audits annually. In addition to requesting clear and proper documentation from the state-run security mechanisms, Holzindustrie Schweighofer has also a verification mechanism of the log yards it purchases from. Holzindustrie Schweighofer requires the APV document (as document of origin) to be presented for each supply – even for timber deliveries that have been re-sorted on a log yard. This provides a sound basis to verify that wood has been sourced from legal harvesting operations.

Also, the EIA report ignores the fact that the Romanian forest governance especially regarding log yards is much stronger than it was a decade ago.

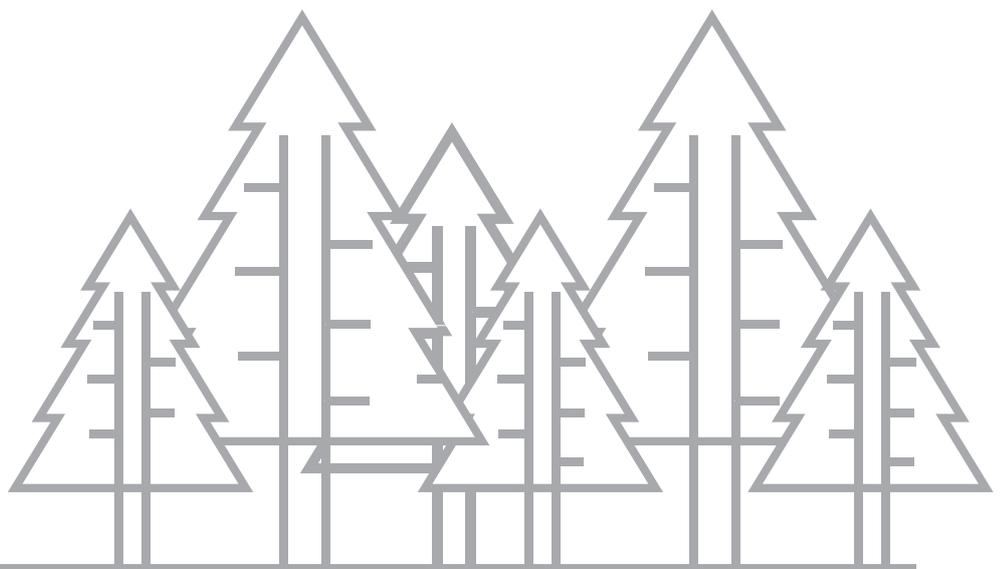


EIA statement

For nearly half of Schweighofer's Romanian supply chain, namely the logs that it buys from third-party log depots, the company has little control or knowledge over where and how these logs are harvested. This large gap in its supply chain makes it impossible for Schweighofer to guarantee legality, much less sustainability, of sourcing. It also means that Schweighofer continues to receive logs cut in Romania's national parks.

FACT

Holzindustrie Schweighofer implemented a Zero Timber from National Park Policy and established underlying procedures in order to guarantee the proper implementation of it. The fact that our security system is able to identify non-compliant loads and communicate them accordingly to the public is a proof of its effectiveness.



EIA statement

In Romania, hundreds of log yards and sawmills in mountain communities collect logs from nearby forests. These depots sort the logs according to species and quality, sometimes cutting them into shorter lengths, and sell them to other depots, sawmills, or exporters. Many depots also function as small sawmills, providing lumber for local construction or furniture manufacturing. While depots provide a useful economic function, their lack of traceability also removes any information about the origin of the logs they sell.

FACT

Romanian authorities are responsible to secure that log yards are established and function in line with laws and regulations. Holzindustrie Schweighofer's principle is to only act within the framework of all laws and regulations. Furthermore our due diligence system is the core instrument to ensure only legally harvested wood entering our mills. Each log yard in Romania needs to be authorized by several authorities before getting operational. All incoming and outgoing timber deliveries are noted down in the registry book (the "registrul").

This registry book is subject of continuous inspections of Forest Guards and provides information for second party audits to verify incoming supplies, their origin and legality. All the deliveries are registered in the SUMAL (input/output) and they are reported every month to the Forests Guards (mandatory) via an online-server.

Physical traceability is not maintained in practice (with the exception of cases with physical separation, as Holzindustrie Schweighofer requires from its suppliers if they simultaneously source from national parks.). However, as long as there are no concerns about legality for the entire volume of logs entering a log yard, the physical traceability is not really an issue.

EIA statement

Under Romanian law, the permit for the “primary transport” of logs or wood chips from a forest must include the number of the harvest authorization permit. However, this harvest permit number is not included under permits for logs coming from a depot, known as “secondary transports.” In many cases, depots serve as laundering machines, allowing illegally cut logs to enter the national timber market.

FACT

EIA seems to confuse the harvesting permit with the harvesting volume estimation (APV). But regardless:

If Holzindustrie Schweighofer purchases timber through a log yard, it requests its supplier to present **all possible APVs and harvesting permits**¹⁷. Additionally, Holzindustrie Schweighofer keeps track whether the delivered saw log volume exceeds the allowed cut volume in the APV. Holzindustrie Schweighofer security architecture, along with the legal requirements and provisions, provide a mechanism to prevent the inflow of controversial material (see also description below).



EIA statement

Depots buy logs from many different sources, including directly from forests and from other depots. Logs from a single truck can end up in different piles, and parts of each pile could be sold to a different buyer. Some logs could be sold onwards immediately, while others could rest in the depot for weeks. Depots are required by law to record all log purchases and sales in a ledger, which can be requested by enforcement authorities. However, they are not required to keep track of individual logs – and few, if any, do.

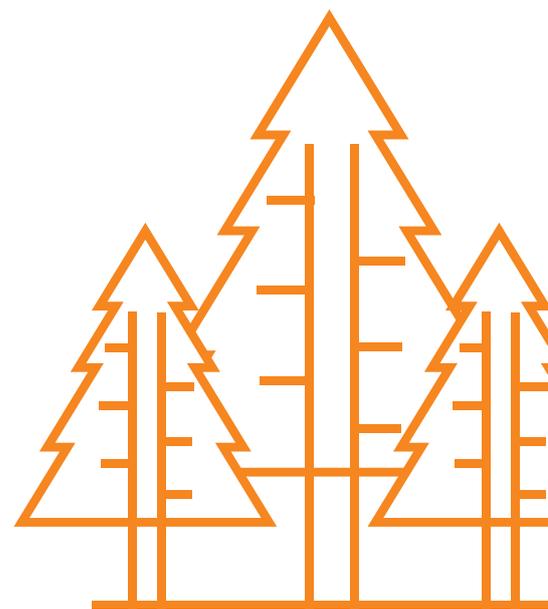
FACT

This statement is entirely true, but EIA fails to acknowledge that thanks to the online truck monitoring system and SUMAL regulations, illegal wood can hardly reach legally operated depots, from where Holzindustrie Schweighofer sources.

Illegal depots cannot source to Holzindustrie Schweighofer since our DDS and Timflow provides effective controls (by on-site audits, by providing GPS information and pictures of the loading places etc.). Every depot is controlled on site at least once per year, where documents for traceability (which are available only if the depot is authorized) are checked and confirmed by Holzindustrie Schweighofer experts.

Contrary to the report's request to apply additional measures to strengthen the Chain of Custody, Holzindustrie Schweighofer is convinced that significant efforts should address also the prevention of illegal harvest, e.g. by focusing inspections also on the forestry operations.

Romania harvests around 18 million m³ each year, this means approximately 80 million pieces of individual logs which are converted into an estimated 800 million pieces of sawn wood each year. There is no track of individual logs neither anywhere in Romania nor in the rest of Europe.



EIA statement

Data obtained by EIA indicates that Schweighofer sources logs from over 250 separate depots all around Romania. EIA estimates that Schweighofer sourced around 40-45% of the logs it purchased in Romania in the first half of 2018 from these depots. Each of Schweighofer's depot suppliers are independent, local companies, with their own sourcing practices and standards.

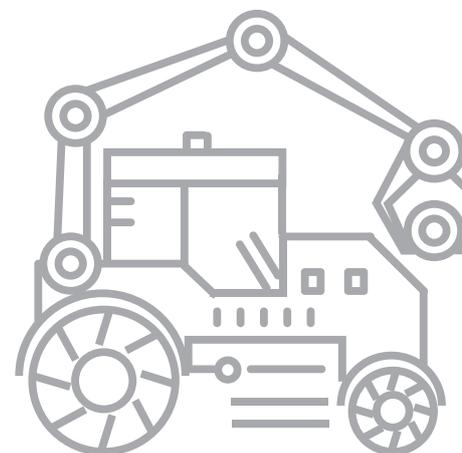
FACT

According to the most recent figures from January 2018 to June 2018 we received 41% as direct deliveries, 4% from our own log yard and 55% via third party log yards.

In numbers it is 397 log yards for round wood deliveries and another 12 log yards/sawmills for sawn timber deliveries. All these log yards are subject to an annual audit also in 2018.

This is true. We work with many small, often family owned suppliers - and for a good reason. The log yards were created from logistic purposes and to ensure the best value from harvested trees. The forest provides all sorts of timber products (fuel wood, industrial wood, saw logs) in over a dozen species. Many assortments have different buyers, and logistically it makes sense to pre-process and sort the material resulted from harvesting in log yards, located close to the forest.

We invite our customers and partners as well as NGOs in our open doors policy to visit our suppliers in the field and understand how such log yards work. It is a primary goal of Holzindustrie Schweighofer to promote cooperation with local, family owned companies having knowledge and practice of harvesting, instead of excluding them from the supply chain by setting-up its own harvesting units. When delivering to Holzindustrie Schweighofer, the suppliers are contractually obliged to comply with Holzindustrie Schweighofer's sourcing standard and timber sourcing policy. With its due diligence system Holzindustrie Schweighofer monitors compliance to this policy.



EIA statement

EIA and others have noted this problem in Schweighofer's supply chain since at least 2015. The Forest Stewardship Council (FSC) expert panel, in a detailed report that led to the company's disassociation from Schweighofer, noted, "where purchases are made from intermediaries that there is a breakdown of the Chain of Custody (CoC) which prevents Schweighofer from determining the source of the timber it buys."

FACT

Holzindustrie Schweighofer is currently in a roadmap process towards ending disassociation with FSC.



EIA statement

Schweighofer itself has long acknowledged that “depots are the weak link in its supply chain.” However, instead of requiring internal traceability from its depot suppliers, the company has sold of the majority of its log depots and all of its forests, thereby increasing its dependence on private depots.

Schweighofer claims to be a “pioneer” in addressing the lack of traceability within log depots, through a pilot program it is testing for tracking logs within one of its two company-owned depots. However, Schweighofer already claims that it is confident that the controls carried out by each of its third-party depot suppliers already guarantee legal and sustainable sourcing.

FACT

Holzindustrie Schweighofer has implemented a solid security architecture that ensures that the risk of sourcing material with uncertain origin is mitigated to the absolute minimum. However, Schweighofer acknowledges that the physical traceability of logs would increase the public confidence in log yards. This is the reason why we work on pilot projects that would in the future bring traceability of the log through the log yards.

However, already now the company can determine, based on the documents requested by the law and cross-checks by on-site audits, the legal origin of all its deliveries.



EIA statement

The company has made numerous misleading claims about its ability to trace supply chain – in particular pointing to its Timflow GPS tracking system. The company claims that, “Every truck delivering logs to the company’s sawmills is equipped with a GPS device which proves the logs’ exact loading place.” While this is true, the “loading place” for nearly half of these trips is merely a log depot – bringing Schweighofer no closer to knowing the actual forest origin of the logs (see figure 2). For these purchases, Schweighofer remains exposed to logs sourced from national parks, virgin forests, and illegal logging.

FACT

It is the central task of our due diligence system to exclude controversial sources. This is accomplished by applying risk mitigation procedures. This has been proved by external audits and also by certification audits.

The fact that our security system identifies non-compliant loads – mentioned by EIA - is - a proof of its effectiveness. However identifying single logs throughout the timber supply chain is simply not economically possible with the technology and systems available today.

Holzindustrie Schweighofer commits to pioneering in due diligence technology. We want to set the best examples. After all, Holzindustrie Schweighofer buys Romanian logs corresponding to only 6% of the annual harvest in Romania, so the effects are rather small as long as not extended to the entire sector.





EIA statement

Schweighofer has claimed that it refuses wood from Romanian national parks since at least 2013. Over the past five years, NGOs and the media have exposed numerous cases of wood from national parks arriving at Schweighofer mills.

After every case, the company has claimed to have reformed its sourcing policies, maintaining that it can now exclude national park wood. EIA's latest analysis shows that Schweighofer has been breaking its promise until this day.

FACT

Holzindustrie Schweighofer's commitment to the Zero Timber from National Park policy is unbroken and is strictly applied.

EIA refers to a case they reported in 2017 where alleged illegal wood from National Park "Muntii Rodnei" was transported to one of our log yards. The complaint was investigated by Holzindustrie Schweighofer's Compliance and Supply Chain Control Departments. Holzindustrie Schweighofer's staff had identified the transports and separated the loads it was proven that our security system worked.

Corrective actions on the two suppliers were applied months before EIA conducted its field visits. Although the deliveries were clearly contradicting the zero timber from national park requirement, Holzindustrie Schweighofer has the proof of the legality of the material.

It needs to be stressed, that the EIA report¹⁸ from 2017 also had a lot of inaccurate statements. It was claimed that Holzindustrie Schweighofer received the

transports from two "sites" they visited, even though the verified documentation and comprehensive on-site investigations proved this accusation to be untrue. The allegations from EIA were also checked by the Forest Guard, which investigated wood theft not just on these forest plots, but in the whole area. The responsible forest ranger was found guilty and fined for 70m³ of stolen timber.

However, this case occurred most likely after the three deliveries were identified by our security system, after we took corrective actions on the two suppliers and even after the plots have been closed properly by the Forest Management Unit. There was no connection at all to Holzindustrie Schweighofer.

Moreover, the recent EIA report does not disclose any new information on recent incidents which would enable us to suspend any of our suppliers. Several request by Schweighofer's Compliance Office on whether there was additional information available remained unanswered.

EIA statement

EIA analysed 18 months of data from the Forest Inspector website to identify over 50 logging sites in two national parks in northern Romania where Schweighofer suppliers regularly source timber (see figure 3).

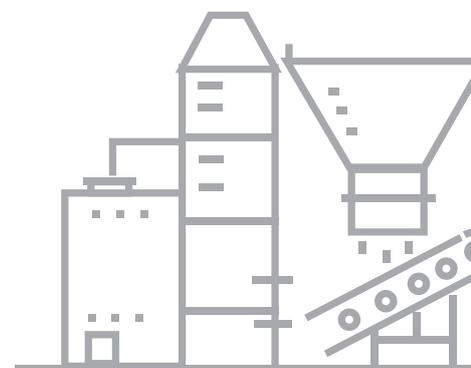
The Forest Inspector website listed individual trucks loading timber within the parks. EIA linked these trucks to nearby depots that supply logs to Schweighofer. In total, since the beginning of 2017, EIA estimates that at least 35,000 m³ of logs were cut from these two national parks and carried to depots supplying to Schweighofer.

FACT

This statement is outright misleading, as it suggests that laws or Holzindustrie Schweighofer's Zero Timber from National Parks-Policy was broken. Neither was the case. Logging in buffer zones of national parks is fully legal and approved by state inspection and control institutions. Holzindustrie Schweighofer has procedures in place in order to facilitate the implementation of its Policy. If a company that receives timber from national parks also wants to make deliveries (consisting of wood that don't originate from national parks) to Holzindustrie Schweighofer, it has two possibilities: either implement physical separation in the log yards, or shift to deliveries directly from the forest, without passing the materials through the log yard. Otherwise, Holzindustrie Schweighofer temporarily suspends the supplier.

Holzindustrie Schweighofer does everything in its power and within the legal framework to exclude such sources from its supply chain by collecting all the available data about these areas.

EIA's report suggest that 35.000 m³ did end up in Holzindustrie Schweighofer's supply chain, which is not true at all. In fact, these depots supply several other consumers too, and there is no evidence that even a single truck of national park timber wood (apart from the loads corresponding to three trucks identified by Holzindustrie Schweighofer's own security system) was received or processed by Holzindustrie Schweighofer.



EIA statement

One of Schweighofer's largest depot suppliers is the Romanian company Frasinul. Frasinul sells logs to Schweighofer from four depots located near Rodna and Calimani National Parks. EIA's investigation confirmed that at least three of these four depots receives logs cut in the nearby parks (see figures 4 and 5). Frasinul's owner, Traian Larionesi, has a history of legal troubles, and since 2014 Romania's anti-corruption authority (DNA) has opened two investigations into him and his companies for bribery of local police chiefs to protect his illegal activities.

In 2017 and 2018, Frasinul maintained active logging operations within both Rodna and Calimani National Parks. According to data obtained from the Forest Inspector, Frasinul trucks transported at least 6,000 m³ of timber out of these parks in the 18 months to June 2018. These trucks carried many if not all of these logs to Frasinul depots near the parks. Schweighofer's mills in Sebeş and Rădăuţi in turn received regular log deliveries from all of these Frasinul depots.



FACT

We clearly stick to our policy and do not engage in business relationships with persons finally convicted for forest crimes and/or corruption. EIA claims that Frasinul has a history of “legal troubles”. But none of the allegations did yet result in a final conviction judgement. However, we closely monitor the judicial records and developments in this field of all our suppliers on a regular basis¹⁹.

The statements are based on assumptions rather than evidence. Frasinul and its sister company are FSC certified and most of the volume Holzindustrie Schweighofer received was FSC 100% certified. Almost none of the forests from the aforementioned national parks are certified. However, Holzindustrie Schweighofer did not receive any material sourced from the national parks.

The uncertified materials received from Holzindustrie Schweighofer from Frasinul were delivered directly from the forest (not via log yard) in the period mentioned by EIA. As Timflow data on Frasinul’s deliveries unambiguously shows, none of the areas from which the deliveries originate was close to the National Parks mentioned in the report.

Holzindustrie Schweighofer received uncertified material from Frasinul’s sister company as well. However, all of the material was controlled with on-site audits and most of it came from areas even further away from national parks.



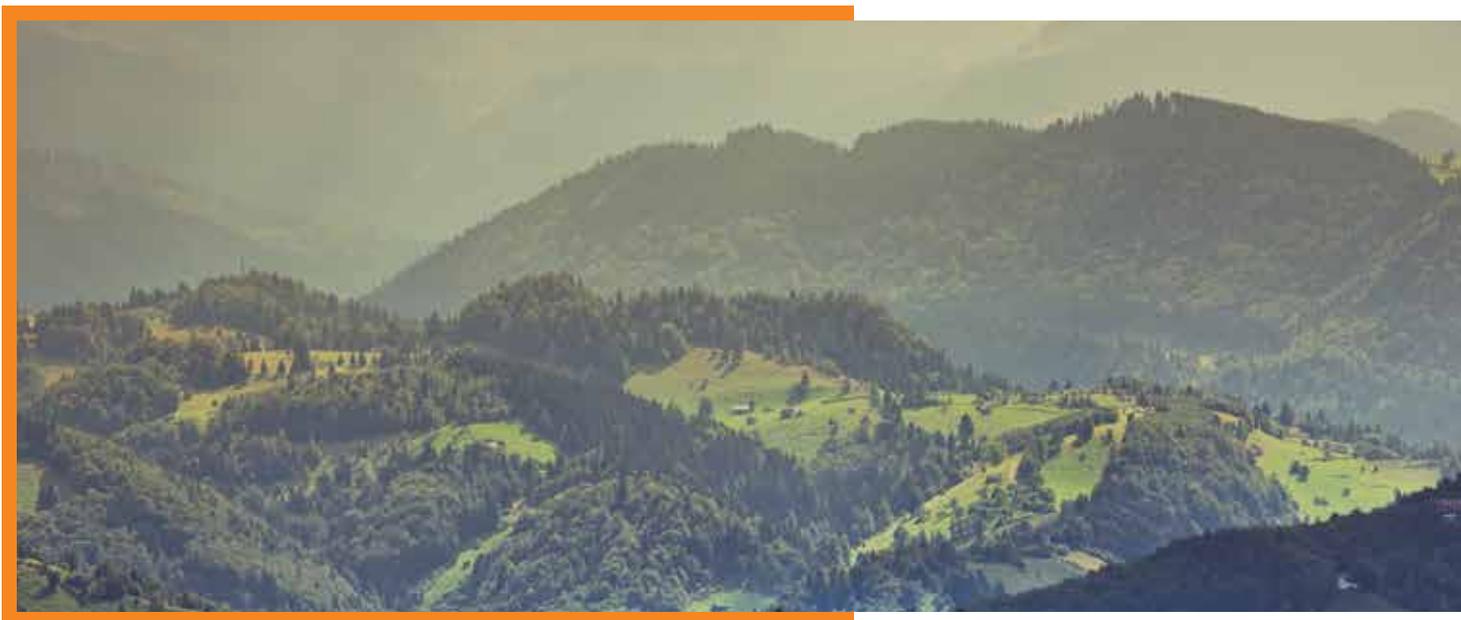
¹⁹Holzindustrie Schweighofer due diligence system includes a standardized media monitoring and juridical database queries

EIA statement

Contrary to the spirit of this mandate, and contrary to the wishes of many Romanians, the logging operations carried out in Romania's national parks differ little from those in production forests outside their boundaries. In a single site in Calimani National Park, a logging company supplying Schweighofer harvested over 4,600 trees – more than in almost any other national park site in the country in 2017. Loggers cut both spruce and beech trees on this site, under a permit for “primary felling” – standard commercial logging. After logging had been completed, the stream below remained clogged with logging wastes.

FACT

This statement wrongfully implies that the material harvested by the company in question was supplied to Holzindustrie Schweighofer. Given that Holzindustrie Schweighofer does not source timber from national parks, the statement in the EIA report is misleading.



EIA statement

Other active logging sites linked to Schweighofer suppliers in the national parks were classified as “conservation” logging. Conservation logging is intended as selective logging of planted monoculture forests, which foresters then replant with a mix of species in order to restore a healthy balanced ecosystem. In many cases, forest experts say this is merely an excuse for cutting healthy trees of many species. At one such site inside a national park and logged by a Schweighofer supplier, EIA found diseased trees marked for cutting still standing, and large un-marked stumps of seemingly healthy trees nearby. To extract a small number of trees from a high ridge, loggers had cleared three large swathes down the steep hillside.

FACT

Holzindustrie Schweighofer asked EIA to deliver the information in order to investigate this case and to take - if necessary - corrective action. So far, we received still no answer from EIA on the specific details of this case.

Holzindustrie Schweighofer reiterates that neither itself, nor EIA (as much as they claim in their report) found evidence that any of the national park material was shipped to Holzindustrie Schweighofer’s mills.

Invitations to EIA to disclose more detailed information remained unanswered. We renew our invitation according to our open doors policy.





EIA statement

At another site in Rodna Mountains National Park, EIA found what appeared to be a thinning operation, however with a number of freshly-marked large stumps – indicating that these trees had not been previously approved by a forest official. At another fresh logging site one kilometre away, none of the dozens of freshly-cut spruce stumps had proper markings. In one case, loggers had covered up a fresh stump with moss to avoid detection from the road below. The loading site near this logging area had no officially registered transports.

A Schweighofer supplier managed the logging operation in this area, and Schweighofer received at least three truckloads of timber directly from here. EIA documented this case extensively in a December 2017 case study.

FACT

The Muntii Rodnei-case was investigated by Holzindustrie Schweighofer's Compliance and Supply Chain Control departments.

On-site visits and audits and official documents necessary to check the entire supply chain strongly suggest that no logs sourced from the plots **identified by EIA** came into our log yards or saw-mill.

Indeed, three transports from "Muntii Rodnei" national park have arrived at Holzindustrie Schweighofer's sawmill gates, but from a different harvesting plot than what EIA had indicated. But our security system worked, the transports were flagged in Timflow and the loads were separately stored and the corrective actions on the two suppliers were enforced already at the beginning of September 2017. EIA visited the plots at the end of October 2017.

EIA statement

Although large-scale clear cuts are not common in Romania's national parks, the extensive logging still common in these parks severely degrades the quality of these forests and damages fragile ecosystems that wildlife depends on. In order to preserve the last remaining intact forests, Romanian organizations are therefore demanding to end logging in national parks entirely. Schweighofer has promised for over half a decade to not buy logs cut in national parks. The company's continued dependence on depot suppliers, however, means that it still promotes these destructive logging practices.

FACT

EIA is blatantly ignoring the reality: Holzindustrie Schweighofer's Zero Timber from National Park Policy has been implemented in 2015. The company clearly distances itself from any form of destructive logging practices.



EIA statement

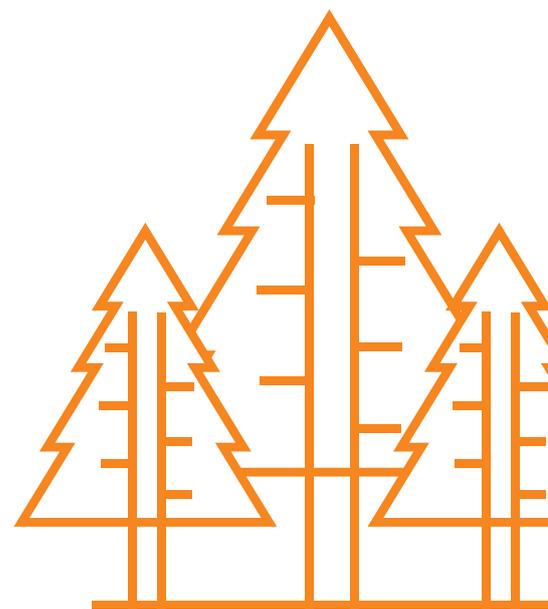
On May 30, 2018, Romanian anti-mafia police raided 23 locations around Romania linked to Schweighofer, including Schweighofer's main sawmills. The raid, led by Romania's Directorate for the Investigation of Organized Crime and Terrorism (DIICOT), followed a three-year investigation that began in June 2015 after EIA first accused Schweighofer of actively incentivizing illegal logging in Romania. The alleged organized criminal syndicate includes Schweighofer, several public institutions and other companies suspected of engaging in "misappropriation of public auctions, tax evasion, unfair competition, illegal logging and other offenses" according to DIICOT. Separately, Romania's Competition Council is actively investigating Schweighofer and Egger, in a two-year investigation into rigged auctions.

FACT

Our company is cooperating with DIICOT and fully supports their efforts in conducting the investigations²⁰.

At the moment, Holzindustrie Schweighofer has no further knowledge about the DIICOT investigation. It is worth noting, that no Holzindustrie Schweighofer staff member was arrested or officially charged for any wrongdoing. Also, the company is not subject to these procedures but members of Holzindustrie Schweighofer staff personally.

Holzindustrie Schweighofer is cooperating also with the Competition Council and fully supports their efforts in conducting the investigation.



EIA statement

Over the past three years, Schweighofer has claimed that Romanian authorities consistently checked and approved of its actions, and that it operated completely in line with Romanian laws. DIICOT's recent raid shatters this façade. The government's press release noted that these criminal activities are suspected "from 2011 to present" – indicating that Schweighofer's illegal activities have continued since they were first brought to international attention in 2015.

In addition, Schweighofer's claimed policy revisions seem to apply only to Romania, whereas the company imports over half of the logs processed in Romania from neighbouring countries, including Belarus, Ukraine and Slovakia.

Schweighofer's Timflow GPS tracking system operates only within Romania. Given that just under half of these transports originate not from forests, but from log depots, this means that Schweighofer has GPS tracking back to the forest loading point for only around 20% of all its logs processed in Romanian sawmills.

FACT

It is true that Holzindustrie Schweighofer uses Timflow only in Romania. But the company's Purchasing Policy is applicable for the whole group. Holzindustrie Schweighofer continuously improves its due diligence system and applies it on all suppliers regardless of the country of origin. Holzindustrie Schweighofer employs dedicated staff in many sourcing countries.

They conduct on-site audits to each supplier and along the supply chain to confirm the origin of the wood. In countries without own employees, the due diligence checks are outsourced to dedicated organisations. Besides this, it is not understandable that EIA arbitrarily downgrades a multitude of positive controls (including 11 controls about

compliance with the European Timber Regulation EUTR) by state authorities as mere "façade" because another state authority carries out an investigation.

We distance ourselves from all sorts of criminal activities and it is our own interest to get clarification soon.

It is important to stress that Holzindustrie Schweighofer does currently not receive sawlogs from Ukraine and Belarus due to the export restrictions in these countries (export ban). As a matter of course also before entering into force of these bans, Holzindustrie Schweighofer applied strict due diligence rules for imports of these materials into the EU.

EIA statement

Near the loading site, EIA found an ongoing logging operation in which loggers were cutting a series of seven so-called “eyes” – small clear-cut circles at regular intervals. Such a logging operation is common in commercial forests, but less so in protected forests, where logging operations are required to follow strict standards to ensure protection of local flora and fauna.

FACT

The most important recent developments in the forest science were the move towards continuous forest cover. This requires transformation of aged forests into single tree selection system by cutting “eyes”. Such method is supported in the scientific literature²¹. Such a harvesting strategy can be part of protected area management.



EIA statement

Traceability back to the forest stand is the only way to know if your wood actually comes from legal and sustainable sources. Schweighofer and other large companies are still unable or unwilling to establish a real chain of custody back to the forest for a large proportion of their log purchases in Romania. Romania remains a high-risk country for illegal logging. These companies urgently need to implement full traceability for all log purchases, if they want to comply with EU law and avoid buying illegal timber.

FACT

EIA refers to the EU Timber Regulation (EUTR). According to this, so called operators (entities that put wood material on the market for the first time) have to apply a DDS which collects information about the timber origin and mitigates the risk of illegal material.

However, Holzindustrie Schweighofer is buying roughly 6% of Romanian logs. EIA does not require full traceability for the remaining 94%.



EIA statement

Romania's forests have suffered over a decade of mismanagement and neglect to feed foreign demand for cheap wood. The time has come for the Romanian government to fully involve its citizens in the transparent governance of its precious forest resources. Foreign companies operating in Romania have a responsibility to enact real traceability for all their wood purchases, as a first and critical step to ensuring that they stop fuelling the destruction of Europe's last great forests.

FACT

EIA neglects all improvements of forest governance in Romania that took place in the last decade. It is also deliberately putting forth misleading information that Holzindustrie Schweighofer processes timber from Europe's last great forests.

Most Romanian forest is reforested by shelter wood system which reduces disturbance to a minimum and in many cases is even part of protected area management. However, putting more transparency and citizens' involvement in the sector is appreciated from the company's side.

Holzindustrie Schweighofer is on the forefront of transparency and therefore supports such developments.





Schweighofer Group - Head Office Vienna
Favoritenstraße 7/2
1040 Wien
AUSTRIA
T +43 1 585 68 62-0
F +43 1 585 68 62-20
office@schweighofer.at

Holzindustrie Schweighofer S.R.L.
Strada Grigore Alexandrescu 59
010623 București
ROMÂNIA
T +40 372 422 700
F +40 372 422799
office@schweighofer.ro