



Indufor ...forest intelligence

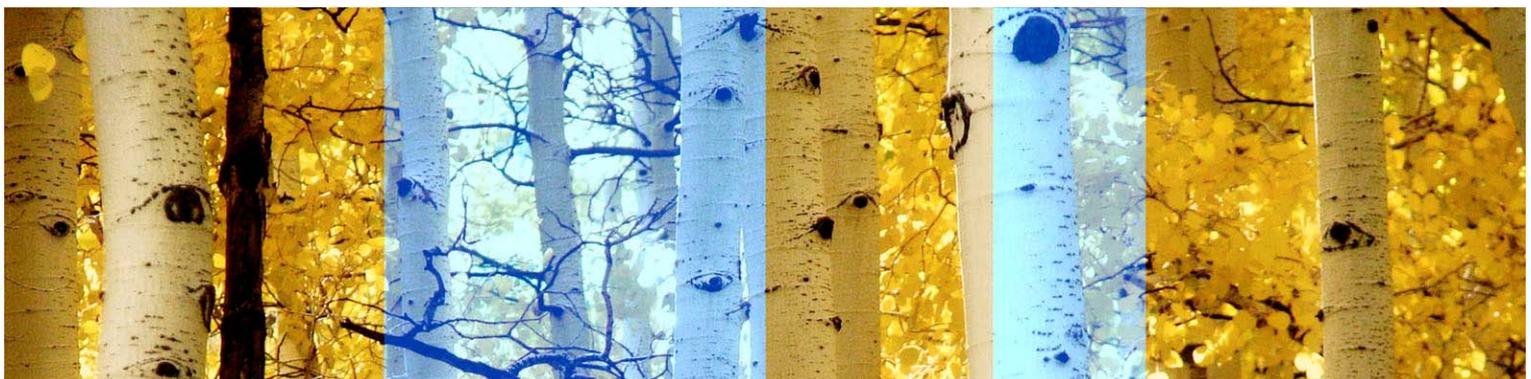
Holzindustrie Schweighofer

Review of Holzindustrie Schweighofer's Due Diligence System in View of the Legal Timber Procurement in Romania

Final Communication Report

Helsinki, Finland
March 9, 2016

7718
ID 82905





Indufor ...forest intelligence

DISCLAIMER

Indufor makes its best effort to provide accurate and complete information while executing the assignment. Indufor assumes no liability or responsibility for any outcome of the assignment.

Copyright © 2016 Indufor

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including, but not limited to, photocopying, recording or otherwise.



TABLE OF CONTENTS

KEY MESSAGE

1. INTRODUCTION	1
2. ROMANIAN STATE SYSTEM TO CONTROL LEGALITY OF WOOD SUPPLY	1
3. SCHWEIGHOFER INTERNAL DUE DILIGENCE SYSTEM	2
3.1 Elements of Due Diligence System	2
3.2 Due Diligence System by Different Types of Purchase	3
4. CONCLUSIONS	4

KEY MESSAGE

Indufor, a worldwide forest industry consulting company based in Finland, the US, Australia and New Zealand, reviewed Holzindustrie Schweighofer's Due Diligence System in Romania in regard to its ability to exclude illegally harvested timber from the company's wood supply operations. The Indufor team visited the company sawmills in Sebes, Reci and Radauti as well as wood suppliers (state owned and private), traders and logging operations.

Indufor experts were convinced of the extensive and rigid control mechanisms Holzindustrie Schweighofer has in place. The core elements of statutory system to prevent illegal logging in Romania are:

- the harvest site specifications and allowable cut (APV)
- the transport document "Aviz" which carries a unique code issued by a government server for every transport. The code opens only a limited time frame for truck-hauling
- the government forest information system (SUMAL) that compiles data of allowable cut, actual volume harvested, and wood shipment to the consumers

Findings

- Holzindustrie Schweighofers's internal Due Diligence System (DDS) complements the Romanian statutory control system for forest management and timber tracing, and addresses the requirements of the EU Timber Regulation (EUTR). The DDS ensures that wood purchased and delivered to the company's mills has appropriate documentation to demonstrate the legality.
- The DDS of Holzindustrie Schweighofer goes far beyond the legal requirements by:
 - accepting no timber from national parks
 - requiring suppliers to comply at the minimum with the FSC Controlled Wood standard
 - assessing the legality risks by each purchase contract.

Volumes supplied to Holzindustrie Schweighofer and duly registered in the government information system (SUMAL) cannot include more timber than expressed in the allowable cut of the forest parcels harvested (APV). The SUMAL has automated controls to ensure that transport documents are not issued to a larger timber volume than the APV authorizes to harvest.



1. INTRODUCTION

Holzindustrie Schweighofer (HS) is an Austrian company operating three major softwood sawmills in Romania. The company is one of the larger softwood logs consuming company in the Romania and the largest individual purchaser of coniferous saw logs in the country.

Over the past years, the Romanian forestry sector has struggled with complex problems related to illegal logging, which has raised civil society concerns about legal compliance of timber suppliers and forest industries. HS and its wood suppliers have been exposed to notable public pressure and allegations by certain NGOs and in media concerning the use of illegally harvested timber.

HS has developed means to assure legal wood supply and prevent illegally harvested wood from being purchased and entering their mills. They have an internal Due Diligence System (DDS) in place to steer their wood procurement activities.

In early 2016, HS organized an external and independent review of the company practices in order to assess the systemic elements and functioning of their DDS. More specifically, the objective of the review is to:

- Analyse the Romanian state system to control the legality of the wood supply and assess how the internal DDS of HS is implemented within this framework
- Identify strengths and weaknesses of the risk assessment, verification audit and on-site audit processes in the DDS
- Suggest improvements to increase the robustness of the DDS.

Indufor, a Finland based company, was contracted by HS to carry out the review. Indufor is a consulting company providing knowledge and advisory services for both public and private clients in the forest and forest industry sectors globally.

This review of HS DDS is based on a fact finding mission to Romania in January 2016. The expert team of Indufor visited HS mills in Sebes, Reci and Radauti. During the mission the team familiarized themselves to the Romanian state system to control the legality of wood supply and DDS applied by the company. They visited and interviewed wood suppliers, state and private forest owners and observed supply chain operations from harvesting via transport and log yards to the mill gate and wood flows within the mill sites.

2. ROMANIAN STATE SYSTEM TO CONTROL LEGALITY OF WOOD SUPPLY

All state or privately owned forest estates that sell commercial wood must be part of an OCOL which is the basic administrative unit dealing with forest management in Romania. OCOLs can give harvesting rights only for areas that are under a valid forest management plan which defines the schedule and types of harvesting, if any, by forest parcels. For a forest parcel that comes to the age of scheduled harvest, OCOL issues "Act de Punere in Valoare" (APV), which specifies the logging site and quota of legal harvesting volume. The APV is the basis for legal sales and entering of wood raw material onto the market.

The roundwood markets in Romania function mostly by auctions that are mandatory for sales of wood from state forests, whereas the private forest owners are also free to make direct sales agreement with buyers. In both cases the APV is given to the holder of the harvesting right.

The Romanian forest administration has created a forest information system called SUMAL (Sistem Informativ Integrat de Urmărire a Materialelor Lemnoase). The SUMAL compiles nationwide information of harvesting sites and their allowable cut, harvested volumes and shipments of wood, directly or via suppliers and traders to processing companies. With the SUMAL the authorities are able to control the equilibrium between the allowable cut (as defined in the APV) and the volumes harvested and transported from the forest parcels.

To control that the wood harvesting on the ground is planned and executed according to the law and contract obligations, OCOL staff make surveys at the forest site before, during and after the



harvesting. Also forest guards, under the direct control of the Ministry of the Environment, Water and Forests, randomly inspect (without pre-notice) planned, on-going and completed logging sites.

After the harvest, the logs are hauled to roadside, measured and loaded onto trucks for long distance transportation. A specific transport document called AVIZ is issued for every truck load. The AVIZ includes information of the load volume and diameters and lengths of each log exceeding 20 cm in diameter.

Data of APV, AVIZ, transport vehicle, starting point and destination of transportation are electronically sent to the state wood tracking system which issues a UNIC code for the shipment. Based on the coordinates of the starting point and destination of transport, the wood tracking system gives a time window for the truck, within which the truck must arrive at the mill making the reuse of AVIZs difficult. The system does not give a UNIC code if the volume of AVIZ exceeds the volume quota in the APV.

Upon arrival of shipment of roundwood at the mill, the receiver must verify that the truck carries all the necessary documents and the physical products corresponds to the volume and other information presented in the AVIZ. The validity of the UNIC code is checked from the State server with mobile applications designed for this purpose. After the truck has passed the check, it can proceed to the unloading.

3. SCHWEIGHOFER INTERNAL DUE DILIGENCE SYSTEM

3.1 Elements of Due Diligence System

HS operates an internal Due Diligence System (DDS) for ensuring the legality of its saw log deliveries. It allows for purchase of wood, which is legally produced, except for logs originating from any authorized cuttings in Romanian national parks and their buffer zones. The DDS is composed of three main elements:

1) Risk Assessment

Prior to entering into a purchase contract, each supplier of logs is subject to the HS internal risk assessment procedure. The risk assessment draws on the FSC procedures to control the legal origin of timber. Organizations compliant with FSC forest management or controlled wood certification are considered low risk suppliers and can directly be offered with a purchase contract.

2) Verification Audit

If the illegality risk is assessed non-negligible, i.e. the supplier is not FSC certified, HS carries out a verification audit to collect legality information on the forest source and the wood supply chain from the forest to the HS mill site. The verification audit is based on an extensive collection of indicators on the suppliers and their supplies giving the certification officers of HS a solid ground for the decision-making on the legality risks associated. The audit specifically aims to verify the compliance with the five principles of the FSC Controlled Wood standard: (i) illegally harvested wood, (ii) wood harvested in violation of traditional and human rights, (iii) wood from forests in which high conservation values are threatened by management activities, (iv) wood from forests being converted to plantations and non-forest use, and (v) wood from forests in which genetically modified trees are planted¹.

A verification audit covers all entities (FMUs, traders, manufacturers) involved in the supply chain. Documentation on supply sources, harvesting rights (e.g. authorization to harvest, APV, logging capacity certificate), processing and transportation of wood must be collected to

¹ FSC-STD-40-005 V2-1 Company Evaluation of Controlled Wood.pdf.

<https://ic.fsc.org/en/our-impact/program-areas/controlled-wood-01/controlled-wood-standards>



Indufor ...forest intelligence

establish that wood at different stages of the supply chain comes from legal sources. If the supplier complies with the audit criteria, the purchase contract can be signed. If compliance is not established, the contract cannot be signed.

3) On-site Audit

Forest holdings contracted to supply HS mills with saw logs are subject to sample-based on-site auditing, the annual sample size being defined by the formula $\text{SQRT}(\text{number of FMUs}) \times 0.8$. The sample is defined separately by the HS mills and the country of harvest. The audit checklist is derived from the FSC Controlled Wood Standard (FSC-STD-40-005-V2.1) and PEFC Due Diligence System (PEFC ST 2002:2013). The aim is to ensure (i) legality of wood, (ii) absence of violation of traditional and civil rights, (iii) high conservation values of forests are not threatened, (iv) genetically modified trees are not purchased and (v) no wood is purchased from conversion of natural forests.

The on-site audits cover the supply chain from the forest parcel – via traders and/or processors of wood – to a HS mill.

On-site audits complement verification audits by providing additional assurance that the suppliers (and traders) have exercised legal sourcing of timber and the actual supply source complies with the relevant legal requirements as well as the FSC and PEFC certification schemes.

3.2 Due Diligence System by Different Types of Purchase

The company control of legality is strongest in the purchase of standing trees, in which HS interacts directly with the wood seller and have access to all the necessary documentation (especially APV) demonstrating legality of the wood source. In this case, HS also issues the primary transport documents (AVIZ).

When HS purchases logs delivered at roadside, the forest owner or owner of the harvesting right (i.e. a wood supplier) organizes the harvesting operations. In this case the control of legality by HS is almost as strong as in the purchase of standing trees, since it has direct access to APVs and AVIZs. However, HS has not the possibility to regularly control the quality of harvest operations or sales of wood to other customers.

When logs are purchased from log yards of independent suppliers and traders, HS gets the custody of wood at the mill leaving the direct control of harvesting, transportation and possible cutting and sorting of logs at wood yards to the supplier. In practice, HS is required to assess systems and operations of the supplier, especially analysing volumes and sources entering and leaving the wood yard. When the supply chain contains two or more actors, tracing logs back to the logging site becomes more complicated. In practice, HS becomes highly dependent on the quality and reliability of the suppliers, in particular on their systems to manage information on the wood flows. This exposes HS to challenges while assessing legality risks and conducting verification audits. The situation would be easier to handle, if the suppliers were externally controlled (e.g. certified according to an appropriate scheme). The company policy is indeed to encourage suppliers to be FSC certified.



4. CONCLUSIONS

Wood volumes supplied to HS and duly registered in the SUMAL can be considered to contain as much legal wood as included in the allowable cut, since the system has automated controls to make sure that transport documents (AVIZ) are not issued to a larger volume than what has been authorized to cut (APV). Further, the reuse of transport documents is made highly difficult due the application of UNIC code that gives a time window for their validity. However, the SUMAL cannot fully guarantee that the physical logs are from an authorized logging site. For this reason the authorities have additional control measures in place including:

- GPS coordinates of the loading point are included in information sent to the state wood tracking system when UNIC codes for the AVIZ documents are applied for.
- OCOL staff make surveys in the forest parcel before, during and after the harvesting to control that the work is planned and executed according the law and contract obligations
- Forest guards randomly inspect (without pre-notice) planned, on-going and completed logging sites.

Despite the strict government controls, some Romanian wood may still be harvested and used outside the system of the forest administration but this material is hard to launder into the consumption of the formal forest sector. However, there are still points where illegal wood may be able to be mixed with legal wood, if the internal and government (Forest guards) controls are weak. It is therefore important that special attention is paid to log yards and other sites collecting and processing timber from various forest sources.

The internal DDS of HS complements the system of the Romanian forest administration by ensuring that wood purchased and delivered to the mills has appropriate documentation to demonstrate the legality. It is a thorough mechanism requiring significant efforts and resources from the company. The DDS of HS goes beyond the legal requirement by accepting no timber from national parks (even if legally harvested), requiring supplier to comply minimum with the FSC Controlled Wood Standard and assessing the legality risks by each purchase contract.

As a result of this review HS has decided to focus on following developments in their DDS:

- Increasing the human resources dedicated to the DDS
- Making framework contracts with suppliers
- Improving management of wood supply chain information
- Integrating biomass procurement in the DDS
- Improving stakeholder communication practices

Moreover, it might be beneficial for HS to benchmark their stakeholder communication practices against large global forest industry conglomerates having long experience in dealing with NGOs and other stakeholders. These companies could provide valuable lessons learned and best practices for stakeholder cooperation and communication.



Indufor ...forest intelligence

Indufor Oy

Töölönkatu 11 A
FI-00100 Helsinki
FINLAND
Tel. +358 9 684 0110
Fax +358 9 135 2552
indufor@indufor.fi
www.indufor.fi

Indufor Asia Pacific Ltd

7th Floor, 55
Shortland St
PO Box 105 039
Auckland City 1143
NEW ZEALAND
Tel. +64 9 281 4750
Fax +64 9 281 4789
www.indufor-ap.com

Indufor Asia Pacific (Australia) Pty Ltd

PO Box 425
Flinders Lane, Melbourne VIC 8009
AUSTRALIA
Tel. + 61 3 9639 1472

www.indufor-ap.com

Indufor North America LLC

PO Box 28085
Washington, DC 20038 USA
1875 Connecticut Avenue Northwest
Washington, DC 20009 USA
www.indufor-na.com

