

# Supply Chain Report 2019

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**HS TIMBER  
GROUP**

## HS Timber Group Supply Chain Control Report 2019

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## 1 Introduction

HS Timber Group and its subsidiaries (referred to as “HS” in this text) implemented a very strong Timber Sourcing Policy<sup>1</sup>. This policy includes a commitment to perform an annual review and to report on its implementation. As a part of the implementation process, the first supply chain report was published in 2018. This second supply chain report now describes the main figures on the implementation of this policy in 2019, with a special focus on the Romanian situation. The report intends to serve as a basis for further discussions with stakeholders.

## 2 Production facilities

In 2019, HS continues to run four sawmills (Sebeș, Rădăuți, Reci and Kodersdorf) and two panel factories (Comănești, Siret). The overall production capacity of the four sawmills is about 4.9 Mio m<sup>3</sup> of roundwood input.

## 3 Raw material procurement

### 3.1 Roundwood purchase

In 2019, all HS roundwood purchases originated almost exclusively from seven EU countries<sup>2</sup>. Additionally, just 129 m<sup>3</sup> were sourced from non-EU countries, as test deliveries.

The group’s operations in Romania – which have a production capacity of roughly 3,7 Mio m<sup>3</sup> - had a utilization rate of about 61%. 50% of their input came from the Romanian market, while another 50% was imported to Romania, a 4% increase in imports compared to 2018<sup>3</sup>. Consequently, the use of domestic wood in Romania decreased again.

Romania introduced in 2015 a legal provision that an economic operator or group of economic operators cannot acquire or process more than 30% of the volume of an industrial assortment of wood of each species, established as an average of the last three years on the basis of authorized harvesting documents<sup>4</sup>; HS is therefore limited to buy only 30% of one wood category from the Romanian market. Due to uncompetitive price levels of Romanian wood in 2019, HS remained well below this 30% threshold. According to data from the National Forest Inventory, HS’ purchases from Romania in 2019 represent about 2% of the annual increment of stock of the Romanian forests (all species)<sup>5</sup> and approximately 6%<sup>6</sup> of the overall annual harvested volume (all species and assortments, according to SUMAL<sup>7</sup>).

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<sup>1</sup> <https://www.hs.at/en/purchase/timber-sourcing-policy.html>

<sup>2</sup> Romania, Czech Republic, Germany, Poland, Slovakia, Austria and Bulgaria in decreasing order of purchased volumes

<sup>3</sup> These figures are presented in the Romanian SUMAL Register, whereas data is reported according to STAS (State Standard); Figures in this report were converted to HUBER measurement standard. STAS NET to Huber NET = Volume \*0.93; STAS with bark to Huber NET = Volume\*0.86

<sup>4</sup> See Forestry Code of March 2009, Law no. 46/2008, as subsequently amended.

<sup>5</sup> National Forest Inventory: <http://roifn.ro/site/ifn-ciclul-ii/>. There are on-going debates regarding some of the data provided by the National Forest Inventory.

<sup>6</sup> The data for all harvested volume in 2019 is not yet publicly available at national level and therefore 2018 harvested volumes are used.

<sup>7</sup> SUMAL = national wood accounting and tracking system

## 3.2 Sawn timber purchase

In 2019, HS (group level) purchased sawn timber from eight countries, three of which were outside the EU. In terms of sawn timber volumes, 33,000 m<sup>3</sup> – 20% - originated in the EU, while 131,000 m<sup>3</sup> – 80% - was imported from non-EU countries, where, according to EUTR, HS acts as an “operator”. HS conducts an elaborate Due Diligence System (DDS) for all these volumes, no matter whether the material was certified or not.

HS purchased in 2019 other product types for panel production: veneer, chipboards and fibreboards, laminated veneer, lumber core, with a total volume of 34,000 m<sup>3</sup>.

## 3.3 Standing timber and EUTR implementation

According to the European Timber Regulation (EUTR), HS is an operator<sup>8</sup> for cases when it first places the material on the European market. This is only the case in two specific circumstances:

- for all volumes purchased as standing timber in Romania<sup>9</sup> and,
- for all imports that arrive to HS’ mills from non-EU countries.

Therefore, for saw logs, HS is the operator only in case of 4.6% of its purchases in Romania when it purchases standing wood. HS remains in a position of trader in most of the cases. In addition to the legal requirements, HS maintains its Due Diligence System for all suppliers and deliveries, in order to meet voluntary certification requirements.

EUTR compliance is regularly checked by the competent authorities in Romania. By the end of 2019, HS mills had 17 EUTR checks by the competent authorities, without any objection, three of which were conducted at the company’s production facilities in 2019.

## 3.4 Biomass purchase volume

HS purchases biomass in Romania alone – chips, harvesting waste, sawdust and bark. The volume that was purchased in 2019 was roughly 111,000 bdmt (bone dry metric tonnes). Biomass is used exclusively in the mills’ combined heat and power plants.

## 4 HS Due Diligence System

### 4.1 Overview of risk management

HS has developed and implemented for all its mills an advanced and robust Due Diligence System (DDS), to mitigate risks of purchasing and using illegal or controversial raw material. The different measures within the organisation’s DDS are set up in order to comply with the requirements for:

- National Legislation in the countries of operation (Romania/Germany)
- EUTR - Regulation (EU) No 995/2010,
- (US) Lacey Act,
- (Japanese) Clean Wood Act,

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<sup>8</sup> The EUTR distinguishes between traders and operators, where ‘operator’ means any natural or legal person that places timber or timber products for the first time on the European market. The obligations of the operator differ significantly from obligations of traders. For operators, there is a prohibition to place illegally harvested timber on the market and to exercise a Due Diligence System which is regularly evaluated and updated (see Article 4 Regulation (EU) No 995/2010 - EUTR).

<sup>9</sup> HS does not perform harvesting activities but relies on service providers (harvesting companies) in case of purchase of standing timber.

- PEFC STD 2002:2013.

While the company's DDS contains the regular information collection, risk assessment and risk mitigation structure, it also contains country level, supplier level and supply level solutions.

## 4.2 Risk management at country level

In line with PEFC's requirements, HS' DDS distinguishes between low risk and high-risk supplying countries (Corruption Perception Index, CPI)<sup>10</sup>. In 2019, HS significantly reduced the number of countries of origin for log purchases, down to seven (EU countries, see above). According to the core indicator CPI, most of the round log input is therefore coming from low risk countries, such as the Czech Republic and Germany. However, the single largest sourcing country remains Romania, with roughly 1.2 Mio m<sup>3</sup>. HS risk assessments cover all high-risk countries and describe the country specific risks, as well as the relevant mitigation measures to obtain a negligible risk. These documents, which are revised on an annual basis, are shared with all major customers and are available for any third party upon request.

### 4.2.1 Media monitoring

HS has a media monitoring system, designed to collect and evaluate relevant news items - such as issues linked to suppliers, or problems in the forestry sector - in high-risk countries from where it purchases raw material. The scope of the monitoring is aligned to the countries' relevance as sourcing countries for HS. Therefore, it is pre-programmed in Romania (saw logs) and Ukraine (sawn timber) only.

In 2019, the media monitoring collected approximately 3,000 articles from Romania and 1,500 from Ukraine. Low-risk country information is collected on a case-by-case basis. Articles are regularly used to trigger internal controls or investigations.

### 4.2.2 Stakeholder consultation

The organisation implemented a stakeholder consultation process to ask for and collect external information on planned supply. The stakeholder engagement protocol is published [here](#)<sup>11</sup>. The opinion and knowledge of relevant stakeholders is taken into account in sourcing activities and risk mitigation measures.

HS organised in 2019 one major stakeholder event in Brasov, on 12 April, with over 150 participants. Another consultation took place on 30 January 2020 in Rădăuți. HS will continue to organize two public consultations each year. The company also established a separate section on its website, with specific stakeholder information. More information is available [here](#)<sup>12</sup>.

### 4.2.3 Chain of Custody (CoC) Auditing

All in all, the company conducted a total of 636 audits of the entire supply chain in 2019, including Chain of Custody (CoC) audits and audits of Forest Management Units (FMU) - including offices and harvesting plots. The CoC audit is designed to get more detailed information about the supply chain and the risk of mixing wood from different sources. It also aims to verify the information provided on the supplier

<sup>10</sup> <https://www.transparency.org/cpi2019>

<sup>11</sup> [https://hs.at/fileadmin/files/Responsibility/Stakeholder\\_Portal/Stakeholder\\_Engagement\\_Protocoll\\_122019.pdf](https://hs.at/fileadmin/files/Responsibility/Stakeholder_Portal/Stakeholder_Engagement_Protocoll_122019.pdf)

<sup>12</sup> <https://www.hs.at/en/responsibility/stakeholder-involvement.html>

declaration, check the legality of required documents and to get an overview of the suppliers' operation. Since 2018, the checklists for the audits are programmed in a mobile application (iAuditor). The iAuditor<sup>13</sup> application collects timestamps and GPS coordinates of the audit, in order to prove that the audit happened on site and was not desk-based only. Each new supplier undergoes an extended audit process, which checks compliance with HS' Timber Sourcing Policy.

During the on-site audit, the SCCC (Supply Chain Control and Certification) responsible officer checks information such APVs, harvesting permits and plot maps, but also information from logyards' registries on the input and on the sources of wood entering the logyards. HS staff also randomly cross-check delivery notes, as well as documents related to the origin of the input material, health & safety and fire protection measures. Photos of the logyard, volume on stock, machinery, working conditions, fire protection measures are also taken and documented in order to assure compliance. In 2019, the company had 820 saw log suppliers and 30 sawn timber suppliers at a Group level, out of which 679 delivered to Romania alone.

For Romanian mills:

- Chain of Custody (CoC) audits = 487;
- Third party Chain of Custody and Forest Management audits = 18

For the German sawmill:

- Chain of Custody (CoC) audits = 9

#### 4.2.4 Forest Management Unit (FMU) office audit and plot visits

The FMU audit is designed to get more information related to the origin of the wood material on a general level, but also at specific plots level; this is possible by visiting the office of the FMU, where this information is provided by the FMU staff voluntarily. During these visits, a dedicated checklist is used to conduct the audit. The audit itself is conducted with the iAuditor application. During the FMU office audit, HS staff collect additional information on the management plans, such as validity, total managed area, protected areas and information on selected plots to be visited. This information is then checked and verified on the ground. Additionally, the harvesting activity is checked for compliance with legal requirements. It is important to mention that FMUs accept such on-site audits on a voluntary basis. In the case of certified, state-owned FMUs, HS relies on publicly available certification reports.

In 2019, HS staff performed 32 FMU office audits in Romania and 90 harvesting plot audits. Also, 13 uncertified FMUs were audited on-site in Ukraine.

#### 4.2.5 Corrective action requests (CARs) resulting from auditing

In 2019, the supplier verification process (CoC audit and the FMU plot visits) resulted in 32 major and 31 minor CARs. The audited unit needs to address these CARs within three months for major CARs and 12 months for minor ones.

The following table gives an overview on detected CARs.

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<sup>13</sup> <https://safetyculture.com/>

Corrective action requests	number of CARs
Plot indicator missing or not containing proper information	17
Non-compliances with DDS documents	15
Health and safety problems, including missing documentation	14
Harvest operation error, damaged trees	7
Water crossing without protection	5
Lack of fence of logyard	3
Mixing of inputs, separation error	1
Lack of environmental permit	1
Total	63

FMU auditing revealed that no corrective actions were required.

#### 4.2.6 Suspension of suppliers

HS only does business with partners who it has reason to trust as acting with due diligence and professional prudence. Where executive managers or staff in similar functions are convicted by a final binding court decision for illegal wood harvesting or corruption, HS, as a rule, excludes their companies from its supply chain for three years. In severe and justified cases, the company reserves the right to delist suppliers, at any time appropriate.

In 2019, HS suspended a total of three companies (for the maximum period of three years) due to non-compliance with the company's timber sourcing policy. Any suspended company can re-join the supply chain once the suspension period has expired and an extended audit confirms full compliance with internal and external rules. If there is any reason to doubt this, the company can be kept under suspension for another defined period.

### 4.3 Delivery level verification

#### 4.3.1 Timflow – wood tracking system

Timflow<sup>14</sup> is a system to collect, analyse and publish data on truck-based log transports, referring to timber supply chains in Romania. It consists of four key-components:

- a GPS logger installed in the truck's circuitry and equipped with mobile data access;
- a mobile device app for the truck driver;
- an internal portal for the truck reception procedure;
- an external portal for publishing the Timflow datasets.

Starting April 2017, all harvesting companies and/or transport companies who supply HS Romanian mills or collecting points with logs must comply with the Timflow requirements and, since then, no truckload with Romanian origin was delivered to an HS mill without using the Timflow system. The Timflow process starts at the loading site (primary platform in the forest or logyard), where:

- photos of the truck load are taken and uploaded to the system;
- the destination, license plate numbers and delivery note number are recorded;
- the GPS logger records the location of the loading point.

<sup>14</sup> <http://www.timflow.com>



This information is recorded within the truck’s “black box” every 30 seconds and delivered to a cloud server immediately where the cell phone network is available. Thus, the mill gate is aware of incoming deliveries and can, upon arrival, check the accuracy of the delivery process along the way to the mill. Once the truck arrives at the mill gate, the gate staff registers the transport as “arrived”. The Portal displays the registered data, including:

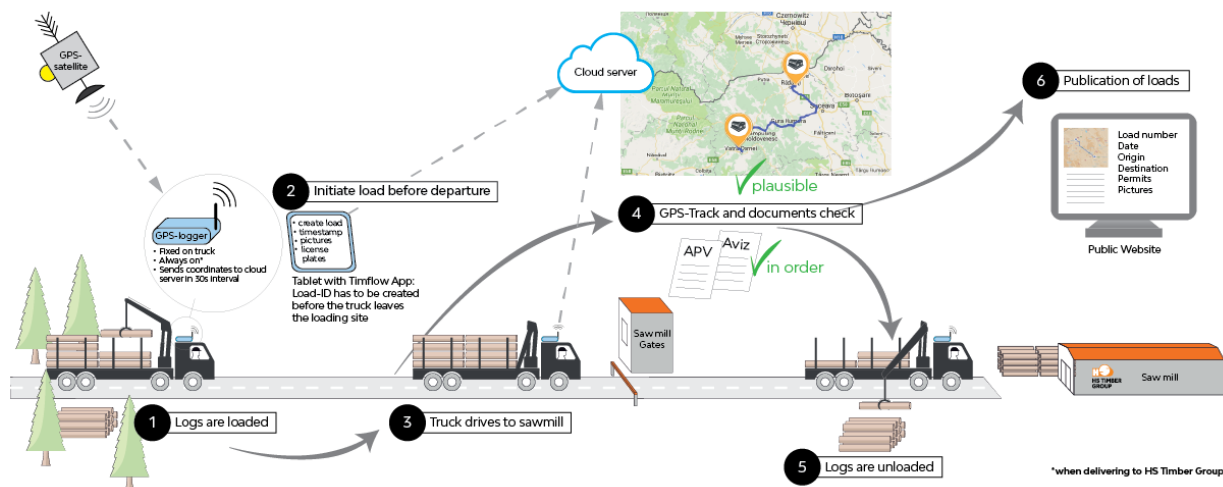
- name of transporting company;
- license plate, number of waybill and SUMAL-ID for both truck and trailer;
- the complete GPS route of the transport;
- the timestamps of start and end of the transport;
- a detailed map of the loading site region, where also conservation areas (natural heritage forests, national parks, potential virgin forests) and the GPS coordinates of the registered loading site(s) are displayed;
- the photos of the loaded truck (including timestamp of the photos).

If all information is plausible, the gate staff registers the truck as “accepted”. If there is any inconsistency or missing information, the transport is blocked, and the delivery is unloaded in a separate area and marked for “further investigation”, which basically means that additional verification steps are necessary before the load can be released for production.

## Where does the timber come from?

GPS-Tracking of log deliveries to HS Timber Group sawmills

**TIMFLOW**  
Wood Tracking



In 2019, HS accepted a total of 25,573 trucks in all its mills in Romania. Of these, 2,993 (11.7%) trucks required additional verification before being accepted for production. In the case of three trucks, HS rejected the delivery because of documented non-compliances with its timber sourcing policy (breach of the Zero Timber from National Parks Policy, lack of, or unclear origin). At its collection points in Maramureş HS operates basically the same security architecture as in its mills, including Timflow. At these collection points, the company received 2,613 transports in 2019, 101 of which were separated and further investigated. All deliveries were verified, no rejections were necessary. All in all, the main reasons for the additional verification steps carried by HS SCCC staff were:

- Missing/incomplete route or different loading point = 60%
- Source of the material (APV) was not confirmed by HS staff = 23.6%

- Other administrative issues, such as breach of HS' DDS or improper delivery note filling = 16%
- Transports in, or close to the limits of a National Park = 0.2%

These errors need to be corrected before the material can be accepted for production. Apart from rejection as a last consequence, corrective actions will also lead to the involvement of authorities in cases where this is necessary (e.g. volume differences).

#### 4.4 Transparency of HS Due Diligence System

HS considers transparency of its activities as one of the most important trust building measures. To support transparency in a profit-oriented business sector, HS goes far beyond the legal requirements.

The main strategic points of the company are:

- open-door policy,
- stakeholder platform available on <https://hs.at/en/responsibility/stakeholder-involvement/stakeholder-platform.html>,
- public access in Timflow ([www.timflow.com](http://www.timflow.com)) for all transports in the last 12 months,
- intensive communication with partners,
- third party assessments of the company's activities.

##### 4.4.1 Third party assessment by Supply Chain Experts from KPMG<sup>15</sup>

HS approached KPMG to support its continuous improvement initiatives for timber sourcing at its Romanian sawmills. KPMG examined HS' chain of custody processes and provided findings and recommendations on areas where further improvements may be possible, including to further mitigate the risk of receiving timber from controversial sources.

KPMG's forest practices group consists of foresters, biologists and forest carbon and chain of custody specialists with international experience in sustainable forestry and chain of custody processes, including SFI, PEFC and FSC certification systems. KPMG visited the HS head offices, its sawmills in Sebeş and Reci, as well as a sample of logyards, active harvest areas and Forest Management Unit offices. Site visits included field observations, interviews with company staff, wood suppliers and other stakeholders, as well as a review of internal chain of custody information maintained by the company and its suppliers.

In addition to that, processes for managing the risk of sourcing timber from illegal loggings were also assessed. Both traditional chain of custody controls, as well as incremental processes required to focus on and mitigate risks in jurisdictions where there is a higher risk of illegal logging, were checked.

All identified opportunities to improve processes, controls and communication, focusing on building on existing controls developed by HS to further reduce the risk of receiving logs from illegal sources were addressed and worked out by HS during 2019.

KPMG's report noted that significant enhancements had been made to timber sourcing programmes by the company in the last two years and that these included the development of controls to mitigate specific risks, identified in historic NGO reports alleging receipt of illegal logs by the company.

In June and December 2019, KPMG conducted follow-up assessment and field work to assess HS' progress in implementing the recommendations. High and moderate priority actions and recommendations were

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<sup>15</sup> KPMG LLP Canada

found to have been implemented. The agreed actions were completed and, where applicable, led to a longer-term continuous improvement programme which is intended to yield additional improvements over time, which will include benefits for forest management and log traceability, across suppliers.

#### 4.4.2 Active participation on customers' verification programmes

In 2019, HS was subjected to customers' verification programmes from four major customers. These external audits included mill visits, document checks, supplier logyard inspections and harvesting site verifications. All these visits were finished with positive results. Another third-party audit was applied to 11 Czech suppliers, to confirm that all HS' purchases from the Czech Republic are subject to efficient risk mitigation.

#### 4.4.3 Third party gap analysis for EUTR Compliance by SGS

In 2019, HS asked SGS - an accredited certification body with special expertise in EUTR compliance and a registered monitoring organisation - to conduct a gap analysis regarding EUTR compliance of HS' DDS. The analysis was conducted specially to benchmark the company's risk mitigation measures in Ukraine for sawn timber but covered all high-risk countries the company currently sources from. The measures in place were found to be effective, especially for Ukraine and Romania. The recommendations for improvements resulting from the report were implemented immediately (audit intervals, quality of third-party audit).

## 5 Role of certification in HS' DDS

### 5.1 HS certification

Currently, all HS mills are holding single PEFC CoC certificates. CoC audit reports are not public in certification systems, but the results and corrective action requests of HS CoC audits are presented below. All HS sales are covered by "PEFC Controlled Sources" claim, and, at customers' request, HS can provide up to "100% PEFC Certified" material in all mills.

Mill	CoC code	Audit date	Findings
Radauti	SA-PEFC/CoC-006300	29.01.2019	No non-conformity identified at 1 <sup>st</sup> surveillance
Reci	SA-PEFC/CoC-006304	20.03.2019	One minor non-conformity: Delivery notes and products are separated from the invoice. Delivery notes do not include the PEFC claim and the identifier of the supplier's chain of custody or forest management certificate. However, the company signed the delivery contract prior to the first purchase of materials for supplying only certified wood. The company used just the claim "PEFC Controlled Sources" since the main assessment.
Sebes	SA-PEFC/CoC-006309	21.03.2019	No non-conformity identified at 1 <sup>st</sup> surveillance

Siret	SA-PEFC/CoC-006299	30.01.2019	No non-conformity identified at 1 <sup>st</sup> surveillance
Comanesti	SA-PEFC/CoC-006275	31.01.2019	One Minor non-conformity: There was only one product on the invoice and on the packing list but two PEFC claims: 100 %PEFC certified included in line with product description and, at the bottom of the invoice, PEFC controlled sources is stated.
Kodersdorf	SA-PEFC/CoC-006400	13.05.2019	No non-conformity identified at 1 <sup>st</sup> surveillance

The FSC (Forest Stewardship Council) was established in 1993, as a result of the Rio de Janeiro Environmental Summit. The FSC is a non-governmental, non-profit organisation committed to the environmentally sound, socially responsible and economically viable use of the world's forests.

HS lost its FSC certification and was disassociated in 2017, based on a decision by the FSC board, after having been put on probation for possible disassociation in 2016. FSC and HS are in an ongoing dialogue process, where the company shall demonstrate tangible and significant improvements in its forest management and timber trade operations, as required by FSC, to be eligible to regain FSC certification in the future.

FSC told the company that it “acknowledges commitment shown by HS in acting on the conditions. At this moment, FSC is reviewing its dispute management system, which means some fundamental support processes need to be in place before FSC can take HS further. FSC looks forward to working with HS to end disassociation.”

## 5.2 Certification target

HS holds PEFC CoC single site certificates for all its factories<sup>16</sup>. HS’ timber sourcing and environmental policies state that sourcing from sustainably-managed forests is of highest priority for the company. “Wood from sustainably-managed forests is the most sustainable material. Using wood can prevent excessive use of plastic or other non-renewable materials”<sup>17</sup>. “We believe forest certification to be an instrument that helps promote sustainable forest management.”<sup>18</sup>. The group is committed to the target of supplying exclusively from certified forests by 2025.<sup>19</sup>

The situation in 2019 on certified input<sup>20</sup> at a group level was the following:

- 41% of saw logs input in 2019 was certified;
- 58% of sawn timber input in 2019 was certified.

Compared to previous years, there is a decrease in the certified volume, because many Romanian wood supplying companies dropped their certificates. In order to reach the above-mentioned target by 2025,

<sup>16</sup> PEFC website query: <https://bit.ly/2SU7KGC>

<sup>17</sup> [https://hs.at/fileadmin/files/Responsibility/Environmental\\_Policy/Environmental\\_policy\\_EN.pdf](https://hs.at/fileadmin/files/Responsibility/Environmental_Policy/Environmental_policy_EN.pdf)

<sup>18</sup> [https://hs.at/fileadmin/files/Responsibility/Timber\\_Sourcing\\_Policy/Timber\\_Sourcing\\_Policy\\_EN.pdf](https://hs.at/fileadmin/files/Responsibility/Timber_Sourcing_Policy/Timber_Sourcing_Policy_EN.pdf)

<sup>19</sup> see above

<sup>20</sup> The share of input coming from certified forests is higher than input that arrives with a certification claim, due to the fact that several harvesting companies – operating in certified forests - are not certified.

the company encourages all its suppliers to obtain a CoC certification. The company is currently also assessing alternative ways (ISO Chain of Custody) of verification that its input is coming from certified Forest Management Units.

### **5.3 Role of certification in risk mitigation**

Certification systems are divided into Forest Management (FM) and Chain of Custody (CoC) certification. HS considers forest certification as an important tool in promoting the sustainable management of forest resources. However, in line with EUTR requirements, HS applies the same risk mitigation and verification measures for all inputs, no matter whether they are certified or not.

## **6 Complaint management**

### **6.1 Overview of complaint management**

The primary goal of the complaint management system is to acknowledge complaints, provide a framework for investigation of all complaints, as well as the immediate implementation of corrective actions. Furthermore, HS integrates the learnings from the investigations in the improvement of the DDS, in order to prevent future incidents. HS' complaint management system is designed to receive complaints from all possible sources, including:

- direct information from stakeholders or published reports;
- indirect sources of information from media monitoring;
- internal complaints and information.

Findings from the regular supply chain verification process, especially from audits, but also irregularities in Timflow are not handled as complaints, but as non-compliances, although they may also result in corrective actions, up to suppliers' suspension.

In 2019, HS' SCCC department handled altogether 25 complaints, 23 of which were reported internally. All in all, six cases turned out to be substantiated, of which three resulted in the temporary suspension of the supplier. Most of the complaints filed concerned suppliers and potential suppliers in Romania; three complaints concerned (potential) suppliers in Ukraine and one in Slovakia.

### **6.2 Case studies**

The case studies below are meant to give a practical insight into the most recent complaints that were filed internally and externally.

#### **Administrative error in SUMAL**

A truck was refused entry in the HS mill in Reci, on 21 June 2019 at 10:35 AM. The reason for the refusal was a 0.01 m<sup>3</sup> difference of wood volume between the delivery note and the electronic system SUMAL. The manager of the harvesting company was required to issue a corrected delivery note and requested the Forest Guard's approval for the modification of the delivery note. The material was then suitable to be accepted.

#### **External complaint – historical alleged illicit input**

In November 2019, the Group's Compliance Office received via the reporting channel (whistleblower channel), information regarding alleged illegal logging activities by HS suppliers and a possible violation of the HS Code of Conduct. Based on this information an internal investigation was launched. Four suppliers

were checked on-site, where different information and documentation was collected, while all transports from these companies were automatically stored separately, until the end of the investigation. After checking the available data, no clear evidence was found to support the allegations from the external complaint. However, one of the investigated companies was suspended (in 2020), after specific and additional evidence (by a media report from the police) came up that it had tricked the SUMAL system by making double deliveries to other companies with one transport note.

## **Infringement of HS Timber Sourcing Policy**

In December 2019, a transport in the Vâlcea area was identified as originating in the Cozia National Park, after the check of the APV by one of our Supply Chain Control officers at the Sebeş mill. The transport was put “under investigation” and unloaded at the designated area inside the mill. After cross-checking the origin with the coordinates, the origin from the National Park was confirmed and the transport was rejected. The reason for this was an error on the supplier’s part, which didn’t comply with HS’ policy regarding wood originating from National Parks.

## **Unclear origin of material**

On 26 and 28 January 2019, HS received two transports which were unloaded “under investigation”, as the APV could not be confirmed by HS staff. After checking the source of the material, the loading point of the transport, and communication with the company’s representative, some discrepancies were found between the origin and the loading point registered in Timflow. The transports were kept separate and unsorted until the investigation was concluded. Finally, the two deliveries were refused. The company was reprimanded and, as a corrective action, deliveries from the respective origin were no longer accepted.

## **Administrative error during delivery**

On 11 November 2019, a truck loaded with material from the HS Săcel logyard in Maramureş was found by the Forest Guard outside the logyard without papers. Due to the limited space in the logyard, the truck had already left the yard and was waiting outside the gates for the appropriate delivery documents to be issued. As the Forest Guard was checking another wood operator nearby, this truck was checked as well. While searching in the Inspectorul Pădurii<sup>21</sup> application, the officers realized that there was no delivery note issued for the transport yet. The driver was interviewed, but the explanation was not accepted, and the Forest Guard decided to confiscate the entire load. The case is currently under litigation in court, no decision was taken in 2019.

## **7 Continuous improvement process**

In 2019, the company made some major adjustments in its compliance and supply chain management. The company rolled out the Supplier Code of Conduct, introduced the compliance reporting line (in addition to the existing line on Timflow.com) and strengthened the supplier management system by developing the so-called DDS Hub (“Due Diligence Hub”), an internal web platform containing and collecting all the relevant information about suppliers and sub-suppliers.

HS internal Code of Conduct is one of the company’s cornerstones, which lays the baseline for how the company does business. It stipulates clear standards of conduct that must be followed by all employees.

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<sup>21</sup> <http://inspectorulpadurii.ro>

From this internal regulation, the company developed a Supplier Code of Conduct. It aims to convey the company's principles to all entities which supply products or provide services to HS. It is mandatory for all suppliers.

More information can be found here: <https://www.hs.at/en/responsibility.html>

In 2019, HS continued testing new projects, exploring new ideas related to ensuring the physical traceability of single logs through logyards, as the company is aware that this is the main concern of certain stakeholders. The company's target is to develop a traceability solution with a high degree of assurance and efficiency, and which is applicable at an industry scale.

## 7.1 Timflow ID

One of the pilot projects was called Timflow ID and was launched in early 2019, with the target to further increase security in the supply chain. Timflow ID was intended to be a system for timber tracking through wood collection points (logyards). The system is based on a traceability requirement for each log and consists of the following elements:

- a mobile application – Timflow ID,
- plastic plates with a unique number on each log,
- an internal online portal with all necessary information about each log.

The system was tested with two suppliers in the second quarter of 2019, to determine its practical applicability. The experience gained from a previous project provided the basis for this project. Technology-wise the project was successful. The project team was able to ensure full traceability of the logs through logyards in the testing period; however, the major problems occurred in the applicability of the system, as it requires a comparably high degree of additional procedural steps during the loading and especially during sorting at the logyard. The most important problem with physical marking is that, in the Romanian roundwood delivery process, there are significant modifications of the material, at three stages:

- in the forest,
- on the primary platform,
- at the supplier's logyard.

Maintaining the original information with a reasonable effort for relatively low-value logs (compared to big diameter hardwood) is a big challenge. The project was therefore put on hold. One of the solutions encountered was that physical marking with tags will only be achieved by intensive use of harvesters, where all sorting activity is made in the forest and marked logs are no longer subject to additional modifications, until reaching the sawmill. The technical details about this project can be found here:

<https://www.hs.at/en/responsibility/a-responsible-supply-chain/pioneering-in-wood-traceability.html>

## 7.2 Hackathon – Evergreen Innovation Camp

The Evergreen Innovation Camp (EIC) is an initiative of the Evergreen Privatstiftung, set out to let multidisciplinary students and alumni work together on a real-life challenge. The 2019 Innovation Camp took place in the form of an international hackathon at the BOKU University of Natural Resources and Applied Life Sciences Vienna. This hackathon was a 48-hour, collaborative event in which interdisciplinary teams focused on the challenge of tracing timber from the harvesting point, in the forest, through to its arrival at the sawmill. The hackathon was also a celebration of team spirit, creative exchange and pleasure in tackling the task at hand.

At the first Evergreen Innovation Camp Hackathon, 75 students and young professionals from a total of 18 universities in Austria, Germany and Switzerland teamed up for 48 hours to find innovative, financially viable solutions for tracing timber. The ability to seamlessly and transparently trace each individual log is becoming increasingly important for our industry. For that reason, the Evergreen Innovation Camp is designed to come up with specific, creative solutions which guarantee traceability along the supply chain. All 12 teams, supported by experienced mentors, developed innovative solutions, concepts and prototypes, based partly on block chain and Artificial Intelligence. At the end of the two-day event, each team had the chance to convince the high-profile jury of the value of their idea. The winning team received 10,000 Euro for their idea.

The winning team, “Tree ID”, developed a concept based on comparing laser measurement data from the forest and at the sawmill. Before being harvested, the standing trees are measured using a mobile laser scanning device. The stem contour and the branch distribution along the stem surface are computed into a unique profile and can be matched with 3D-contour scanning of the logs in the mill. The idea of the winning team is now processed and further developed.

The Evergreen Innovation Camp is planned as an annual event, focusing on a different topic each time. But it will always be concerned with generating and embracing innovation in the forestry and timber industry. More information on the Evergreen Innovation Camp at: <https://www.evergreen-innovationcamp.io/>

### **7.3 DDS HUB**

HS started working on developing a new internal management system for Due Diligence in 2019, the so-called “DDS HUB”, a web-based supplier level data management tool. Programming started in May 2019, using the expertise of an external IT developer and it was successfully implemented at the end of 2019. HS’ supply chain control team is already working with the platform and further development, including new features, will be taken into consideration in 2020.

### **7.4 Supply chain control improvements in 2019**

It is a legal obligation to review the DDS on a regular basis, but also part of the company’s philosophy, embedded in its slogan “getting better every day”. Apart from a regular update of the risk assessments, there is a well-established process in place to improve the DDS procedures and requirements, following factual discussion with experts internally and externally, but also as a result of internal investigation processes.

The following changes were made in 2019:

#### **7.4.1 Concept changes in the DDS**

- Revision of country-specific issues of supply chain control, underlying country specific issues in documentation and risk assessment;
- Implementation of a “risk matrix” (predefined risk mitigation methods depending on input, certification status, method of delivery);
- The concept of low impact forestry was integrated into FMU auditing, first steps already taken in assessing the most common problems in Romanian forests related to this subject;
- A new supplier management system was created with the help of an external developer; all the information about HS suppliers, sources of wood, their sub-suppliers, volumes and audits data is



now available in a centralized web-platform called “DDS Hub. This improves accessibility of data and exchange of information between the mills.

## 7.4.2 Risk assessment

- Starting a new risk assessment for Romania, following the results of the second cycle of the National Forest Inventory;
- Revision of risk assessment procedure (iAuditor);
- Revision of the HS Supply Chain Management System manual;
- Better handling of incoming certification claim declarations.

## 7.4.3 Risk mitigation

- External ISO 14001 training;
- EUTR Gap analysis, conducted by an accredited certification body;
- Third party supplier audits, focused on high-risk countries;
- Creating the base for the annual audit plan, selection of suppliers, frequency of visits, based on the newly introduced risk matrix;
- Modification of the FMU audit form;
- Modifications of the plot audit form focused on low impact forestry.

## 7.4.4 Documentation and reporting

- Revision of the Lacey Act procedure;
- Improved DDS reporting methods;
- Logo use contract with PEFC Romania was finalized; revision of the internal certification report;
- Complex update of the DDS manual.

## 8 Conclusions and future development

In 2020, the issue of traceability will remain of major importance for the company. Whereas physical marking of single logs (Timflow-ID project) turned out not to be implementable on a broader scale, the system will be reviewed. However, the company would like to increase the number of logs that can be physically traced, in addition to the legal verification of all wood that is in place now. HS started to work with its larger suppliers to implement Timflow on their own facilities. Moreover, at the group level, the ideas resulting from the Hackathon are followed up and future projects are being developed.



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