

Vienna, 16 July 2018

## **Holzindustrie Schweighofer: Timber imports from Ukraine conform to all laws and regulations**

- **Company acting in accordance with the European Timber Regulation (EUTR) – all 10 EUTR checks with positive results for the company**
- **Going beyond the law: Strict company guidelines for the entire value chain**
- **Security architecture subject to continuous improvement**
- **Report by NGO “EarthSight” prompts further examination of concrete points of criticism— access to all relevant documents offered**

In reaction to a recent report by the non-governmental organisation “EarthSight”, Holzindustrie Schweighofer wishes to transparently present the framework conditions, principles and circles of responsibility of its engagement in Ukraine: During the years 2012 to 2016, the focus of the company’s activities lay on the import of coniferous saw logs for its Romanian processing plants. In total, around 3.5 million m<sup>3</sup> of coniferous saw logs were imported to Romania since 2012 in compliance with all applicable laws. With the coming into effect of the Ukrainian export moratorium on spruce and fir saw log exports, Schweighofer ceased its corresponding activities in November 2015. When the moratorium on exports of pine saw logs from Ukraine came into effect in December 2016, Schweighofer also ceased to import these products. Currently, Holzindustrie Schweighofer purchases only coniferous sawn timber from 16 suppliers in Ukraine.

### **10 EUTR controls with positive results for the company**

Between 2015 and 2018, Holzindustrie Schweighofer was subjected to 10 EUTR (*European Timber Regulations*) controls, all of which confirmed compliance with all legal due diligence obligations.

### **Strict Due Diligence, Dialogue and Continuous Improvement**

It is Schweighofer’s fundamental principle to adhere to all applicable rules and regulations in all its engagements. The company applies a strict control system designed to comply with the requirements of the EUTR (European Timber Regulation) to all its timber purchases. Among other aspects, the EUTR regulates the due diligence to be applied by market participants when they place timber and timber products into circulation on the European Single Market for the first time. They are obligated to prove that the timber originates from legal felling.

### **Meticulous Monitoring**

50 Holzindustrie Schweighofer employees (including internal auditors, supply chain experts and purchasers) are involved in examining the sources of all purchased timber. Crucial elements of these examinations are: On-site visits to suppliers and the harvesting locations in the forests, intensive checking of the sustainability certifications and company profiles of the suppliers, and verification of the competent responsibility of the forestry administrations. In this way, the entire spectrum of the supply chain is checked prior to any timber purchases being made. After purchase and during delivery, quality, quantity and the respective delivery documentation are closely monitored.

### **Dialogue with NGOs**

In addition, Holzindustrie Schweighofer is committed to maintaining a transparent dialogue with the public. Besides continuous internal revision, the company views this as the best way to determine further possibilities of optimising its security architecture. Criticism from whichever source is an important motivator for continuous improvement within the company, and this applies in particular to countries with challenging social, political and economic environments. One of the organisations with which Holzindustrie Schweighofer maintains a dialogue against this background is the NGO Earthsight. The company therefore offers Earthsight access to all relevant documents in connection with its economic activities in Ukraine.

### **Clearly Defined Responsibilities**

How does Holzindustrie Schweighofer view its responsibility in challenging countries like Ukraine in principle? The following areas of responsibility can be discerned:

- Compliance with the laws of the respective country along with
- all applicable international laws.
- The ethical aspiration to establish efficient and transparent control systems going beyond the scope of these laws to monitor and protect the entire supply chain.
- The ambition to continuously improve our security architecture in constant dialogue with the public.
- Not to do any business with convicted offenders in the areas of corruption and illegal felling.

If specific problems arise in certain countries (*such as Ukraine*) that fall within the responsibility of the national authorities and must therefore be addressed by those authorities, and that are not or cannot be recognizable even to a circumspect company like Holzindustrie Schweighofer, then the company cannot assume any responsibility for such problems. Private corporations cannot, should not and must not take over the sovereign functions and duties of countries (*like those of the federal prosecution, jurisdiction or executive authorities*). To be made responsible for criminal acts allegedly perpetrated in a country when one may in fact be the victim of those criminal acts must be rejected emphatically.

### **Special Audits**

It is a guiding principle of our company to cooperate with state authorities in their investigations. It is likewise an important principle of our purchasing policy to terminate contracts with suppliers in the event of legally binding convictions and to discontinue all cooperation until further notice.

We take up all points of criticism by the NGOs and analyse them to gain further insights. In this context, we have taken the issues brought up by Earthsight as an occasion to subject all our current suppliers to an additional technical and legal audit.

#### **Background information:**

##### **Facts and figures: Holzindustrie Schweighofer in Ukraine**

- **Which activities did Holzindustrie Schweighofer undertake in Ukraine from 2012 to 2017?**  
From 2012 to 2016 the main focus of HS' activities in Ukraine was the import of coniferous saw logs destined for its timber processing mills in Romania. Following the Ukrainian export ban on spruce and fir saw logs, HS ceased its spruce and fir saw log imports in November 2015. Following the Ukrainian export ban on pine saw logs, HS ceased the imports of pine saw logs by the end of 2016.



With full respect for the framework of applicable laws and regulations HS continued to purchase sawn timber from Ukrainian producers in order to better utilize its Romanian further processing capacity. Since 2012 HS imported: (i) 3.5m cubic meters of coniferous saw logs, (ii) approximately 95,000 cubic meters of coniferous lumber and (iii) approximately 5,000 BDT (*bone dry metric tons*) of firewood from Ukraine. HS' imports from Ukraine decreased in 2017 to 49,000 cubic meters of lumber and 5,000 BDT of firewood.

- **Does Holzindustrie Schweighofer purchase wood from individuals or companies that have been legally convicted?**

As a matter of principle, HS does not source wooden raw materials for a period of at least three years from companies or individuals who have been legally convicted for offenses against forestry and/or corruption laws for at least three years.

- **How does Holzindustrie Schweighofer deal with potential breaches in its upstream supply chain?**

HS acknowledges its responsibility to assess relevant information about potential wrong-doings in its supply chain even before there is a legally valid verdict. HS considers the letter received from Earthsight to constitute such relevant information. Their findings are currently being analysed. In addition to HS' standard auditing procedures, special audits targeting all its current Ukrainian lumber suppliers are being carried out. The aim of these special audits is to reveal potential links between HS' supply chain and forest management units and/or persons incriminated in your letter. HS also initiated an external legal audit on the aforementioned state forest enterprises.

- **What is the EUTR?**

When sourcing timber in Ukraine the EU Timber Regulation (EUTR)<sup>1</sup> is a key legislation. The European Union introduced the EUTR in order to minimize the risk of illegally harvested timber and timber products entering the EU market. HS believes that the EUTR as such and responsible importers who respect the EUTR are significant contributors and can serve as examples for sustainable forestry in Ukraine.

- **"Holzindustrie Schweighofer follows the rules laid down by the EUTR" – What exactly does that mean?**

When importing from Ukraine, HS acts as *operator* under the EUTR. As such the company always applies due diligence when it places timber products on the EU market for the first time. Regardless of who supplied this timber—be it FSC-certified state forest entities or private companies headquartered in EU or Ukraine—HS respects its obligation under the EUTR.

- **What is compliance with the EUTR? What are the due diligence requirements?**

HS' due diligence processes fulfil the EUTR requirements. HS collects and audits a range of verifiable information including: (i) product specifications, (ii) timber species, (iii) certificates of origin, (iv) phytosanitary certificates, (v) quantity, (vi) names and address of suppliers, (vii) origin of the timber back to the forest management unit, and others. All suppliers are subject to our on-site verification programme.

- **How do the due diligence systems of Holzindustrie Schweighofer work in this context?**

HS' EUTR compliant due diligence systems thoroughly check all deliveries from Ukrainian suppliers and sub-suppliers instead of solely relying on the suppliers' own systems. The stringent application of the EUTR enables a transfer of know-how about effective due diligence to Ukrainian forest enterprises. In other words: The EUTR and European companies help the Ukrainian timber industry on its way towards a more sustainable and compliant future.

- **How can HS' compliance with the EUTR rules be measured?**

Between 2015 and 2017 HS Romanian subsidiary underwent 10 comprehensive EUTR-inspections by the competent authorities. These controls included also a check of our Ukrainian imports. None of them unveiled any non-conformance with the requirements of the EUTR.

HS is committed to constantly improving its security architecture. In order to bring in expert views in the development of its Due Diligence System, HS asked in 2016 the internationally renowned Indufor Group to assess and improve the security systems of the company. Already then Indufor concluded that the established security systems (due diligence) surpassed all legal requirements.

- **Why does HS not publish all documents regarding its imports from Ukraine?**

This would largely be in breach of data protection laws. But, in compliance with the relevant legal formalities, Holzindustrie Schweighofer actively invites the NGO Earthsight to inspect the relevant documents.

- **How many suppliers from Ukraine are currently supplying HS?**

Currently, HS purchases sawn timber from 16 suppliers from Ukraine. All 16 suppliers are currently being subjected to a special audit. An external investigation focusing on the legal status of the companies is currently also ongoing. In particular, the legal status of the companies or their directors regarding convictions for illegal logging or corruption is relevant.

- **Were the saw log deliveries that HS received from Ukraine FSC-certified?**

Of the saw log deliveries of previous years, around 28% were FSC-certified. Of course, the remaining amount was also purchased in full compliance with Ukrainian legislation and the EUTR.

- **Which role did international constructions play when importing of saw logs from Ukraine?**

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<sup>1</sup> Regulation No 995/2010 of the European Parliament and of the Council of 20 October 2010



Holzindustrie **Schweighofer**

Concerning wood trade, HS cooperates with companies from all over Europe. These companies always “delivered at frontier” (Ukraine-Romania). Hence, HS always acted as *operator* according to the EUTR and was therefore fully responsible for proving the wood’s legal source of origin and for implementing a compliant due diligence system.

- **Have any of HS’ suppliers in Ukraine been convicted for or suspected of corruption?**

As a matter of principle, HS terminates all contractual relationships with persons or organisations that have been legally convicted. This is ensured by intensive on-site inspections. Having received valuable input from the NGO Earthsight on this matter, HS commissioned Ukrainian legal experts and lawyers who are currently investigating the companies incriminated by Earthsight regarding illegal logging and corruption.

#### **About the Schweighofer Group**

The Schweighofer Group has its roots in a traditional Austrian family company with over 400 years of experience in wood processing. Today, the Group is primarily active in the wood processing industry, forest management, bioenergy production and real estate. The industry division of the Schweighofer Group operates three sawmills and two wooden panel productions in Romania and one saw mill in Germany. It takes a leading role in the European timber-processing industry, currently employing around 3,100 employees. Holzindustrie Schweighofer exports products to over 70 countries worldwide

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