



Independent Verification of FSC Conditions Framework of HS Group by Soil Association Certification Limited

Executive Summary

Soil Association Certification Limited (SA Cert) was chosen through an open tendering process by FSC to carry out an independent third-party verification of HS Timber Group against the FSC [“Conditions Framework”](#) – a document setting out the terms under which HS Timber Group might become reassociated with FSC.

SA Cert developed an auditing methodology within the scope provided by FSC, and the Conditions Framework. This used a combination of a UK-based audit team carrying out remote policy and procedural documentation review and video interviewing, and another audit team in Romania carrying out on-site auditing at all 5 of HS Timber Group Romanian facilities plus sampling of suppliers and forest harvesting areas (see table below).

The Romanian team also travelled to Ukraine and audited suppliers from the HS Timber Group Ukrainian supply-chain (see table below).

A stakeholder consultation process was undertaken concurrently and ran for 6 weeks, with a wide range of Romanian, Ukrainian and international stakeholders consulted by SA Cert. In total 8 experienced FSC auditors were engaged on the project.

Site	Number of sampled suppliers ¹
HS Timber Productions SRL - Sebes	5
HS Timber Productions SRL - Reci	8 (including 1 forest management unit)
HS Baco Panels SRL - Comanesti	1
HS Timber Productions SRL - Radauti	9 (including 1 forest management unit)
HS Timber Productions SRL - Siret	5 (including 1 forest management unit)
HS Timber Group suppliers in Ukraine	3 (including 1 forest management unit)

¹ Note: The number of sampled suppliers (y) was calculated as factor 0.8 of square root of the number of suppliers (x), rounded to the next whole number: $y=0.8\sqrt{x}$. Taking into account the considerable differences in supply chains and risks related to suppliers located in Romania and Ukraine, the samples for each country were calculated separately.



The UK team selected employees and related stakeholders for interview based on their job functions and an assessment of key roles related to the Conditions Framework. The Romanian team used a risk-based approach to select a sample of suppliers to audit in both Romania and Ukraine. Full details of the methodology are described in the public summary of the independent verification report.

HS Timber Group were fully cooperative during the planning and auditing phases and regular meetings between FSC, HS Timber Group and SA cert were held to organise and implement the verification process. Following FSC's approval of the SA Cert methodology and audit plans, the verification audit took place between 1st February and 3rd March 2021. SA Cert utilised an audit checklist generated from the [FSC Conditions Framework](#) as basis for conducting the verification exercise.

SA Cert found generally good compliance with the FSC Conditions Framework. No major non-compliance was found with the assessed requirements of the FSC Conditions Framework. HS Timber Group were able to demonstrate significant investment and progress in policy issues, staff and supplier training, supply chain control, due diligence and timber tracking, and stakeholder engagement. For example:

- The company has developed a compliance program based on internal policies such as a Code of Conduct and thereby engaged and worked with the International Anti-Corruption Academy in developing its anticorruption measures.
- Positive action has been taken to suspend first tier suppliers who breach the company's policy or who may be involved in such activities even if not related to supply to HS Timber Group.
- The Employee and Suppliers Code of Conduct include the required commitments detailed within this Condition Framework and in the case of the employee Code of Conduct referring also to the requirement to 'obey the laws, rules and regulations of the cities, states and countries in which we operate'. These are published on company website in English, Romanian and German.
- The company gains written (signed) commitments from its first-tier suppliers with clearly reference the Supplier Code of Conduct which meets the condition framework requirements.
- The company has developed and published on its website a Stakeholder Engagement Protocol updated on January 2021 outlining stakeholder engagement strategies including Open Door policy to NGO's, Consultation processes and complaints handling.
- The company has developed a group wide Sustainability system which is used to assess the negative and social impacts related to its operations and supply chains. That system is clearly embedded into business processes and the company's Corporate Social Responsibility system, including with the Employee and Supplier Codes of Conduct and the Timber Sourcing Policy. Negative impacts are identified



and assessed by HS Timber Group but also through stakeholder consultation processes and measured through the company's sustainability process details of which are published in its Sustainability reports the most recent dated August 2020. Those impacts include material use (logging), fuels, energy water, gas use, emissions and waste streams generated. A detailed KPI assessment exists for Significant Environmental Aspects at Mills including fuel consumption, energy use and waste.

- HS has developed and implemented their TIMFLOW electronic GPS based timber tracking system in Romania since 2017, This works in unison with the national SUMAL system to allow the tracking of timber from the forest stump, and into the sawmill. The company is committed to a programme of continuous improvement of systems including Timflow.
- A robust system to verify documentation and identify errors or non-compliances related to harvesting, trade and transport is in place and interviewed responsible staff demonstrated awareness on this. The system includes verification of all documents (transport documents - AVIZ and associated harvesting authorisations - APVs) related to each delivery at the HS factory gates.
- The Timber Sourcing Policy is explicit in that: 'We are explicitly committed to excluding material sourced from virgin forests and non-intervention areas.'. Information about forests included in the National Catalogue of Virgin and Quasi-virgin Forests in Romania is available and integrated into the Timflow system.
- A system to avoid doing business with individuals/ companies/entities which have been convicted for any offence related to illegal timber trading and/or illegal harvesting and/or fraud and/or corruption related to business with forest land, timber harvesting and trade is in place and implemented.
- HS Group has initiated the establishment of a Foundation called "Padurea de Maine" ("Tomorrows Forests") to facilitate social and environmental forest related projects in alignment with the FSC Conditions Framework.

SA Cert raised 4 minor non-compliances with corrective actions which related to: 1) incomplete roll out of training for anti-corruption and Code of Conduct issues; 2) minor documentation and implementation issues related to internal auditing of supply chain control; 3) minor documentation issues related to Due Diligence processes in Ukrainian supply-chains; 4) a lack of centralized system for registration of identified errors in incoming transport documentation for sawn wood and wood panels products in HS' processing sites in Comanesti and Siret. The last issue was successfully resolved during the audit. Full details are available in the findings section of the public summary of the independent verification report.

Stakeholder engagement and consultation are the core identity of FSC certification. The principles of transparent and inclusive stakeholder engagement were duly followed in the independent verification process of the HS Timber Group. Throughout the month of February 2021, as part of the independent verification exercise, over 1000 stakeholders were consulted by SA Cert with the objective to gather feedback in relation to HS Timber Group and their



potential compliance with the FSC Conditions Framework. This included relevant stakeholders at international level such as WWF, Greenpeace and Environmental Investigation Agency, stakeholders at a national level (including both Romania and Ukraine), including National Agency for Environmental Protection, Agent Green, Rise Project, wood processors, and local level Local Environmental Protection Agency offices, country council offices. Stakeholders were approached by a combination of email, telephone, video conferencing and in-person meetings. SA Cert received responses from 30 interested stakeholders providing feedback in relation to HS Timber Group. This feedback was compiled by SA Cert and is presented in the public summary of the independent verification, for transparency purposes.

Some key feedback raised by stakeholders during the consultation about the HS Timber Group included:

- HS Timber Group has made significant efforts to reach out to stakeholders, respond to concerns and to publish information about its sustainability efforts.
- HS Timber Group scaled up the level of transparency regarding its supply chain.
- HS Timber Group is continuously improving its supply chain security including implementing Timflow, a GPS tracking system for trucks delivering logs to its Romanian mills from Romanian suppliers.
- HS is very cooperative in working with authorities and business partners.

Stakeholders also raised negative feedback including:

- HS Timber Group mills in Romania purchases over 50% of timber from outside Romania. It is unclear to stakeholders to what extent these supplies are being checked and monitored for legality?
- Concerns about risk of illegally harvested material entering HS Timber Productions supply chain through log yards
- Reference to recent settlement with the Romanian Competition Council for violation of the national /EU competition rules for an investigation period 2011 to 2016
- Romania's anti-organized crime prosecutors, DIICOT, have an open investigation against employees and former employees of HS Timber Productions dating back to 2015

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With the finalization of the independent verification exercise, the role of SA Cert in the FSC Roadmap process for HS Timber is concluded. Further steps on the process are to be managed directly by FSC International.

The next step in the roadmap process is for FSC International to bring the above presented findings of the independent verification to the attention of the FSC International Board of Directors for their consideration and decision.