



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

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.



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

Slovakia, Poland and Belarus supply chain

Executive Summary

Following the first independent verification and its consideration by FSC Board of Directors, Soil Association Certification Limited (SA Cert) was instructed to carry out a further second independent third-party verification of HS Timber Group against section 2 of the FSC [“Conditions Framework”](#).

The scope of this second verification was targeted at supply chains in Slovakia, Poland and Belarus. The second verification was considered necessary due to concerns raised by stakeholders during the first verification about HS purchasing activity within Poland, Belarus and Slovakia, and risks known to be present in these countries. FSC carried out its own internal assessment of risk from these countries before instructing a remote assessment for Poland and Belarus, and an onsite assessment for Slovakia.

The objectives of this second verification were to:

- (a) Gather and analyze information collected through remote audit and field verification exercise for the assessment of potential risks associated to HS Timber Group’s operations in Slovakia. The verification included an evaluation of the adequacy and robustness of the HS Timber Group’s due diligence systems and processes for Slovakia;
- (b) Conduct a desk assessment to evaluate supply chain risks of HS Timber Group’s operations in Belarus and Poland; and
- (c) Evaluate evidence presented by HS to close out any of the previous non-compliances from the first verification.

SA Cert developed an auditing methodology within the scope provided by FSC, and the Conditions Framework, which was approved by FSC prior to implementation. The methodology used a combination of a UK-based auditor carrying out remote documentation review for Polish and Belarus supply chains including video interviewing, and another audit team in Slovakia carrying out on-site auditing by sampling of HS’ Slovak suppliers, and related forest harvesting sites.

A targeted stakeholder consultation process was undertaken directly by FSC concurrently and ran for 6 weeks. The objective of the consultation was to gather information on the



stakeholder perceptions about HS Timber Group's operations in Slovakia, in the context of the FSC Roadmap implementation (and beyond). Stakeholders were chosen to include those who had expressed concerns or submitted comments for the first verification, and other key stakeholders within Slovakia (and beyond) following inputs from HS Group.

The remote audit for Poland and Belarus focused on information and data provided by HS on purchases from both countries within 2020/21. This included reviewing HS purchasing policies and documented country risk assessments. Samples of purchases were chosen by the SA Cert auditor to track deliveries from suppliers to HS sawmills in Romania and Germany. Full purchase data were also audited for 2021 purchases from Poland and Belarus, and were checked for stated Certification status of each load/consignment.

The remote audit also verified the successful closure by HS of the 3 Minor non-compliances from the first verification.

The onsite audit in Slovakia was based upon an analysis of the HS supply chain first and second/third tier suppliers and geographical origin of the supplies. A risk-based approach was used to determine which suppliers to audit. HS Group sources in Slovakia from 1 first tier supplier, which in turn has 11 second tier suppliers - 6 of which have 41 third tier suppliers. Many of the second and third tier suppliers hold FSC FM and/or COC and/or PEFC Chain of Custody certification. Nearly 80% of all 2021 delivered volume came from one second tier supplier who holds both FSC and PEFC COC, and only 13% came from uncertified suppliers. The first tier supplier in Slovakia and 9 second/third tier suppliers were audited over 4 days in August 2021. The audit included visits to forests, logyards and interviews with a range of Managers and Forest Managers involved in the supply chains.

Full details of the methodology are described in the public summary of the independent verification report which can be accessed [here](#).

HS fully supported SA Cert and FSC throughout both audit processes, with HS' Senior staff attending audits in Slovakia, together with HS' Slovak Forestry consultant/auditor.

SA Cert found good compliance with the FSC Conditions Framework. No additional non-compliances were identified with the assessed requirements of section 2 of the FSC Conditions Framework during this assessment. HS Timber Group were able to demonstrate good control of purchasing and supply chain management in Poland, Belarus and Slovakia. This is achieved by HS through a combination of:

- implementing its corporate procurement policy, supplier code of conduct, supplier contracts, and audits where applicable;
- sourcing only certified material where possible;



- avoiding areas of concern which have a geographical basis, e.g. Białowieża region in Poland;
- assessing and managing risk using external sources of information, e.g. FSC Controlled Wood Risk Assessments, supplier intelligence, credible third party information, and legal checks;
- monitoring biodiversity issues in each country, including Forest Management Certification reports.

SA Cert raised two Observations, indicating suggestions for further improvement, these Observations do not indicate systemic concerns, but simply suggest areas of opportunity for further development:

- The first Observation related to a small number of keystroke data-entry errors within the full purchase data set for Poland and Belarus. This involved material which had been recorded as uncertified when in fact it was certified, but the material was managed appropriately through the HS Due Diligence System and Chain of Custody systems. SA Cert identified an opportunity for improvement by analysing the full data sets for exception reports.
- The second Observation related to a single incidence in Slovakia where documentation from the forest of origin did not include information to identify it at the compartment/stand level.

FSC did not receive any Stakeholder feedback from the targeted Stakeholder consultation exercise.

SA Cert developed an independent verification report – of which a public version can be accessed [here](#) – and submitted it to the FSC Board in September 2021 for review and consideration.