

# BEHIND THE SCENES

HOW LOG YARDS HIDE THE DESTRUCTION  
OF EUROPE'S ANCIENT FORESTS





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For over 25 years as a nonprofit organization, EIA has pioneered the use of undercover investigations to expose environmental crime around the world. Intelligence reports, documentary evidence, campaigning expertise and an international advocacy network enable EIA to achieve far-reaching environmental protection by spurring changes in market demand, government policy and enforcement related to global trade in wildlife and environmental products.

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Cover: EIA

# EXECUTIVE SUMMARY

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A new investigation by the Environmental Investigation Agency (EIA) has found that the Austrian timber giant Holzindustrie Schweighofer (Schweighofer) is still sourcing timber from Romania's national parks, despite over five years of public pledges not to.<sup>1</sup> Schweighofer still buys nearly half of its Romanian log purchases from third party log yards. For this wood it lacks traceability back to the forest origin, and is unable to exclude timber from illegal sources, or from national parks or other protected areas.

Romania's Carpathian Mountains once housed the majority of the remaining old growth forests in Europe, with the continent's largest populations of bears, wolves, and lynx. Recent estimates indicate that as many as two-thirds of these forests have been lost in just the past decade.<sup>2</sup> The extensive no-questions-asked sourcing by large foreign and domestic wood processors, of which Schweighofer is the largest, for logs and biomass to feed foreign demand has played a significant role in the decline of these precious forests.

EIA's investigation has determined that Schweighofer's log suppliers have transported over 35,000 m<sup>3</sup> of timber from just two national parks in the 18 months from January 2017 to June 2018. One of Schweighofer's largest Romanian suppliers of wood is called Frasinul. Frasinul cuts wood in numerous sites in national parks and operates numerous log yards nearby, from which it sells logs to Schweighofer. Frasinul has a history of legal troubles; its CEO has been under investigation by Romania's anti-corruption authorities since 2014.

EIA visited active and recent logging sites in forests identified using data from Romania's new Forest Inspector website and other online sources. Forest Inspector provides real-time information to the public about all timber transports in Romania. It is a ground-breaking

transparency tool – but its impact has been limited both by subsequent government actions and by the prevalence of depots that do not trace the origin of logs they buy and sell.

Depot sourcing and the lack of traceability back to the forest stand are problems for all major foreign buyers in Romania. The other major Austrian companies in Romania, Kronospan and Egger, have even longer supply chains, and even more difficulties to know the legal origin of their wood supplies. However, Schweighofer's role as one of Romania's largest log buyers means that its purchasing decisions still have the greatest impact on forest governance in the country. Schweighofer's continued extensive sourcing from depots brings into question the company's commitment to legal timber sourcing. Schweighofer and other foreign buyers continue to profit from countries with poor forest governance.



Log depot in Romania

EIA



In May 2018, Romanian police raided Schweighofer facilities and suppliers as part of a years-long investigation into the company for illegal logging, tax evasion, and links to organized crime. The government puts the damage to the state at 25 million euro.<sup>3</sup>

While many European buyers have stopped purchasing products from Schweighofer, Japanese buyers, who make up around half of Schweighofer's exports, continue to fuel illegal logging through their ongoing purchases from Schweighofer. Schweighofer lumber competes directly with domestic Japanese cypress in Japan's house-building market, but Schweighofer's imported lumber is cheaper, in part because of illegal logging.

Romania's forests have suffered over a decade of mismanagement and neglect to feed foreign demand for cheap wood. The time has come for the Romanian

***EIA's investigation has determined that Schweighofer's log suppliers have transported over 35,000 m<sup>3</sup> of timber from just two national parks in the 18 months from January 2017 to June 2018***

government to crack down on illegal logging and fully involve its citizens in the transparent governance of its precious forests. Foreign companies operating in Romania have a responsibility to enact real traceability for all their wood purchases, and to stop contributing to the destruction of Europe's last great forests.

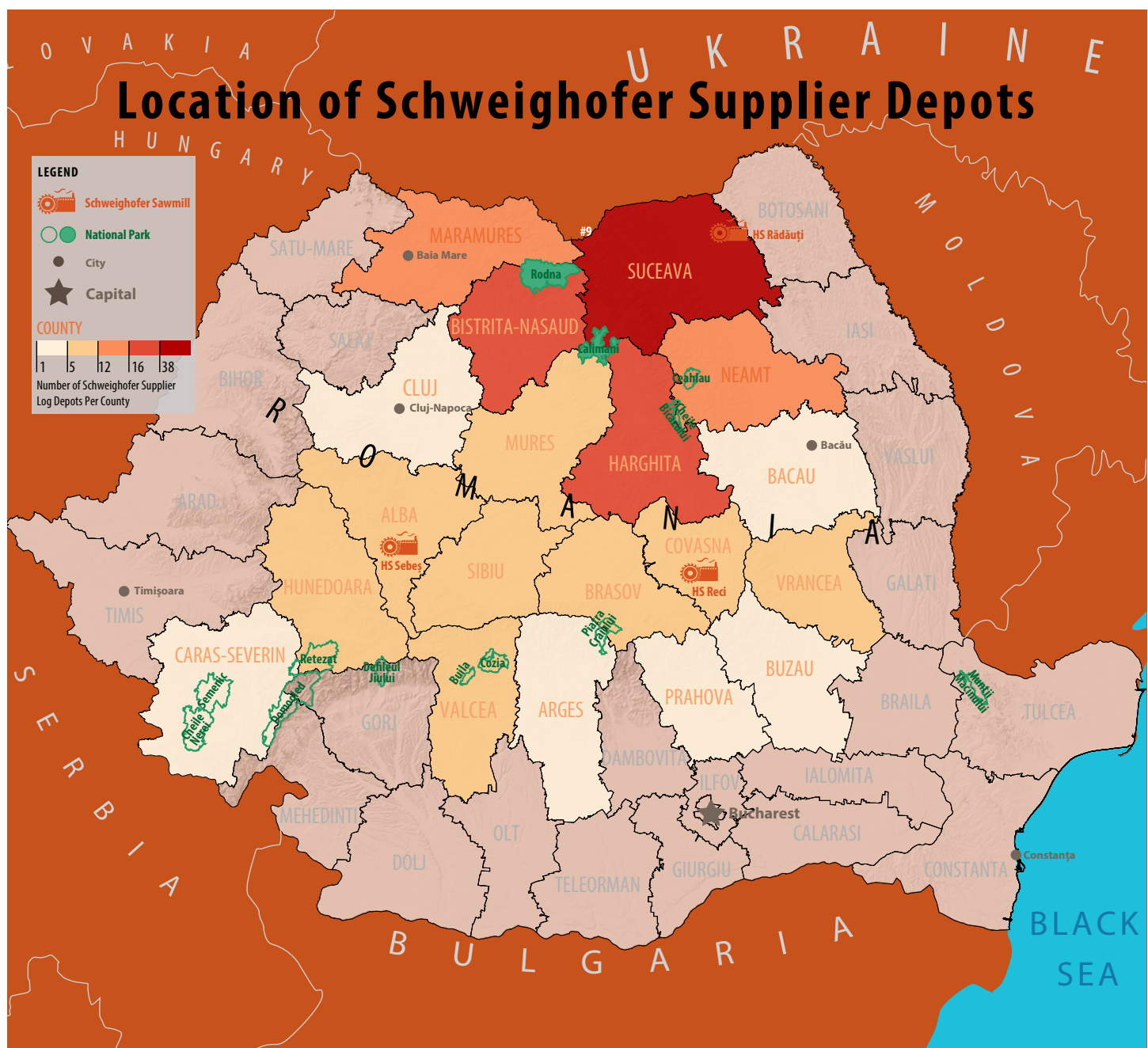


Figure 1. Schweighofer's network of depot suppliers



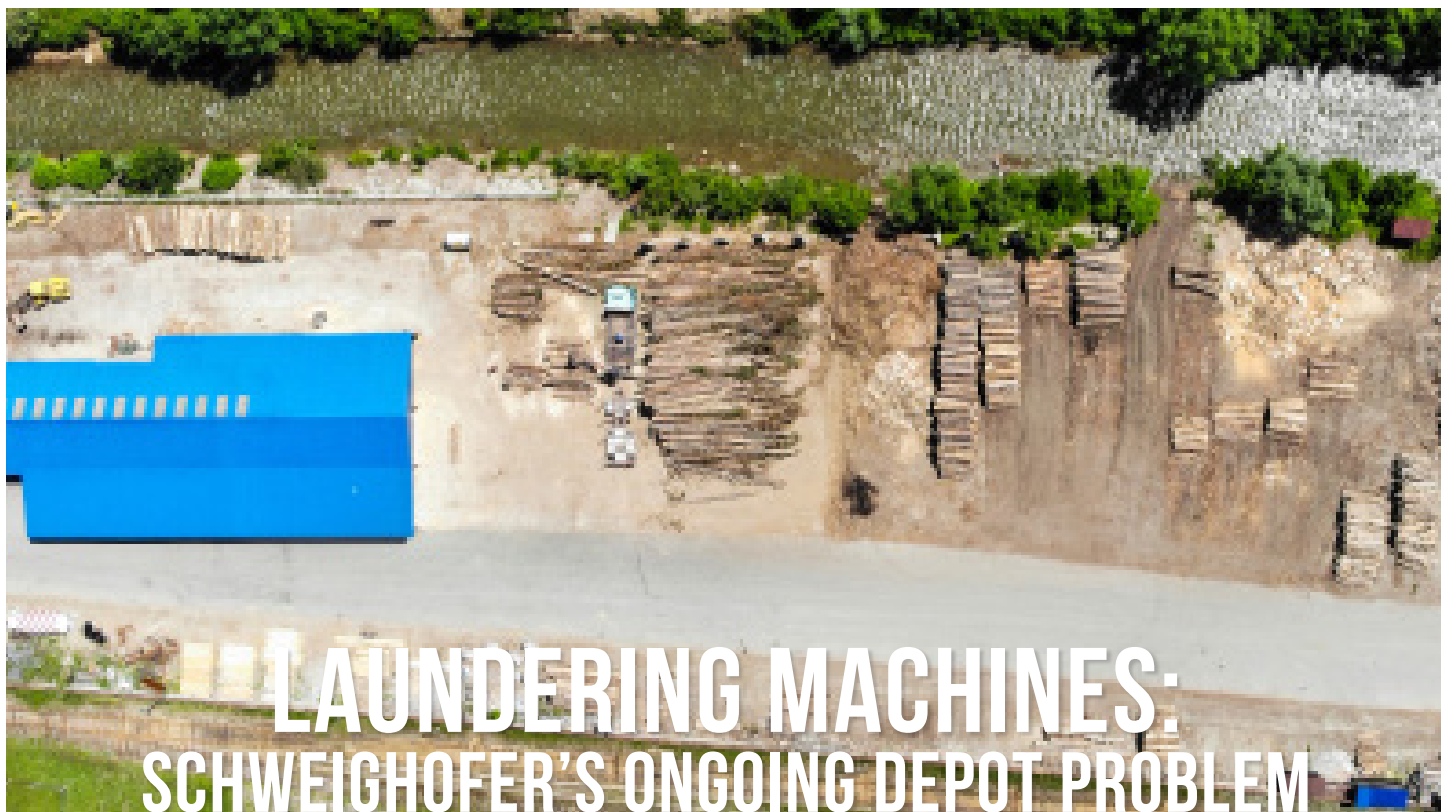
Calimani National Park EIA

In 2014, undercover investigators from the Environmental Investigation Agency (EIA) met with officials from Holzindustrie Schweighofer (Schweighofer), an Austrian company which is the largest wood processor in Romania. EIA wanted to understand how the widespread illegal logging that local Romanian media and NGOs had documented for years could continue unabated, and where the vast quantities of illegal wood ended up. The answer was simple. When EIA offered to supply Schweighofer with illegal logs, company officials replied, “no problem” – in two separate in-person meetings and also over email.

The release of EIA’s video in early 2015 set off a sequence of events that have upended the Romanian forest sector. In June 2015, Romanian officials inspected Schweighofer mills and suppliers, gathering evidence which led to a three-year investigation by Romania’s anti-organized crime police.<sup>4</sup> In 2017, Schweighofer lost its FSC certification.<sup>5</sup> The company announced a series of changes to its sourcing policies and has dropped its purchases of Romanian logs from 2.3 million cubic meters in 2013 to 1.2 million m<sup>3</sup> in 2017.<sup>6</sup> In 2016, the Romanian government launched a public, online electronic tracking system for wood transports, the Forest Inspector, setting a new precedent for public transparency.<sup>7</sup> In May 2018, Romania’s anti-organized crime police raided Schweighofer mills and suppliers, accusing Schweighofer employees of taking part in criminal networks to obtain illegal timber, and of defrauding the Romanian state of at least 25 million euro.<sup>8</sup>

These actions have created a moment of respite for Romania’s forests, but the lasting impact remains uncertain. The Romanian government’s investigation remains in progress, and prosecutors have not yet filed formal charges. Schweighofer’s imports of timber into Romania have increased significantly to 1.6 million m<sup>3</sup>, much of this from neighboring countries with high levels of corruption, including Ukraine and Belarus, and from countries with large areas of sensitive forest habitats such as Slovakia.<sup>9</sup> Since 2016, Romania’s government has reversed course on transparency, and has removed key data from the Forest Inspector website and mobile app.<sup>10</sup> In Romania, Schweighofer has sold off much of its forest lands and most of its own log yards,<sup>11</sup> thereby shifting responsibility for legal and sustainable harvesting more and more to third-party log suppliers.

A 2005 scientific survey estimated that Romania contained two-thirds of Europe’s last remaining virgin forests, totaling around 300,000 hectares. Recent analyses are still ongoing, but forecasts are pessimistic. Researchers estimate that the 2018 total will be closer to 100,000 hectares.<sup>12</sup> Illegal and uncontrolled logging has played a large part in these declines – fueled by a no-questions-asked demand for timber and biomass in Europe and abroad. The lack of traceability within Romania’s timber sector means that foreign buyers continue to unknowingly fuel the ongoing destruction of Europe’s last great forests.



EIA

Schweighofer claims that all timber entering its mills has legal origin,<sup>13</sup> thanks to its recently introduced due diligence procedures.<sup>14</sup> The first step in due diligence is information gathering in order to assess what risks are associated with a specific supply chain.<sup>15</sup> For nearly half of Schweighofer's Romanian supply chain, namely the logs that it buys from third-party log depots, the company has little control or knowledge over where and how these logs are harvested. This large gap in its supply chain makes it impossible for Schweighofer to guarantee legality, much less sustainability, of sourcing. It also means that Schweighofer continues to receive logs cut in Romania's national parks.

In Romania, hundreds of log yards and sawmills in mountain communities collect logs from nearby forests. These depots sort the logs according to species and quality, sometimes cutting them into shorter lengths, and sell them to other depots, sawmills, or exporters. Many depots also function as small sawmills, providing lumber for local construction or furniture manufacturing. While depots provide a useful economic function, their lack of traceability also removes any information about the origin of the logs they sell.

Under Romanian law, the permit for the "primary transport" of logs or wood chips from a forest must include the number of the harvest authorization permit.<sup>16</sup> However, this harvest permit number is not included under permits for logs coming from a depot, known as "secondary transports."<sup>18</sup> In many cases, depots serve as laundering machines, allowing illegally cut logs to enter the national timber market.

Depots buy logs from many different sources, including directly from forests and from other depots. Logs from a

## THE ROLE OF LOG DEPOTS IN SCHWEIGHOFER'S ROMANIAN SUPPLY CHAINS

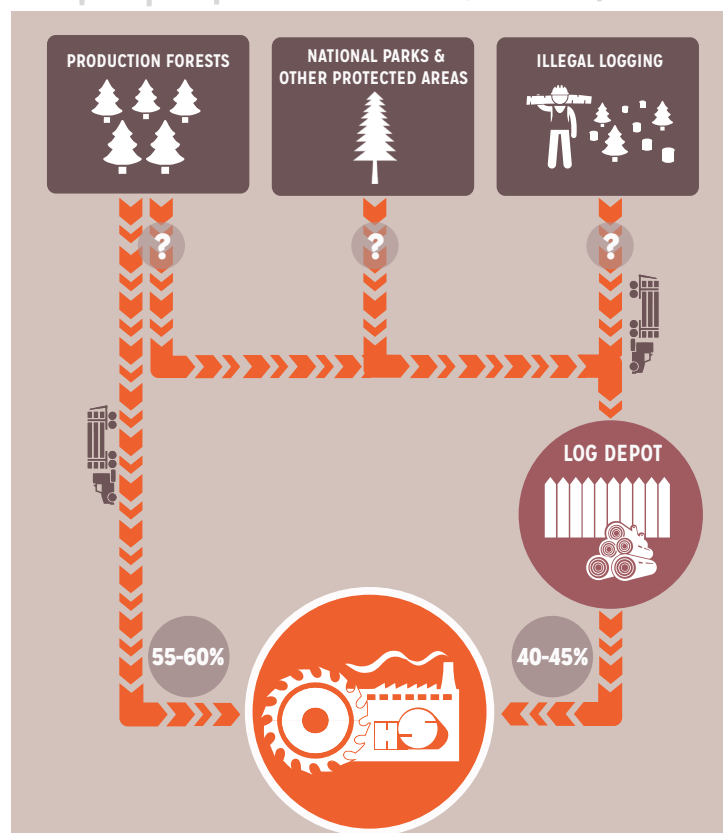


Figure 2. How depot sourcing exposes Schweighofer to illegal and unsustainable logging

EIA



single truck can end up in different piles, and parts of each pile could be sold to a different buyer. Some logs could be sold onwards immediately, while others could rest in the depot for weeks. Depots are required by law to record all log purchases and sales in a ledger, which can be requested by enforcement authorities.<sup>18</sup> However, they are not required to keep track of individual logs – and few if any do.

Data obtained by EIA indicates that Schweighofer sources logs from over 250 separate depots all around Romania. EIA estimates that Schweighofer sourced around 40-45% of the logs it purchased in Romania in the first half of 2018 from these depots. Each of Schweighofer’s depot suppliers are independent, local companies, with their own sourcing practices and standards.

EIA and others have noted this problem in Schweighofer’s supply chain since at least 2015.<sup>19</sup> The Forest Stewardship Council (FSC) expert panel, in a detailed report that led to the company’s disassociation from Schweighofer, noted, “where purchases are made from intermediaries that there is a breakdown of the Chain of Custody (CoC) which prevents Schweighofer from determining the source of the timber it buys.”<sup>20</sup>

Schweighofer itself has long acknowledged that “depots are the weak link in its supply chain.”<sup>21</sup> However, instead of requiring internal traceability from its depot suppliers, the company has sold off the majority of its log depots and all of its forests,<sup>22</sup> thereby increasing its dependence on private depots.

Schweighofer claims to be a “pioneer” in addressing the lack of traceability within log depots, through a pilot program it is testing for tracking logs within one of its two company-owned depots.<sup>23</sup> However, Schweighofer already claims that it is confident that the controls carried out by each of its third-party depot suppliers already guarantee legal and sustainable sourcing.<sup>24</sup>

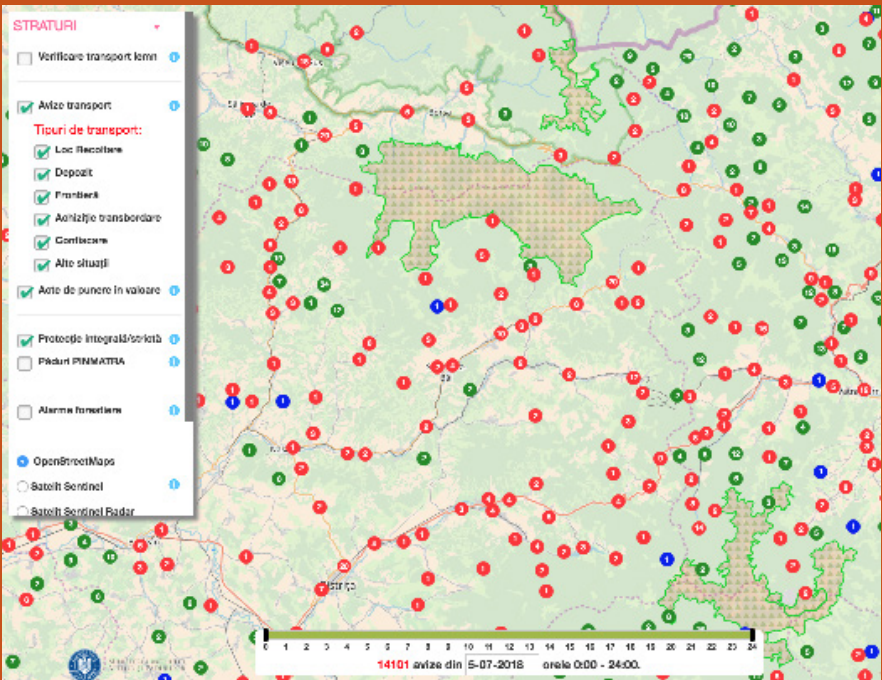
*In many cases, depots serve as laundering machines, allowing illegally cut logs to enter the national timber market*

The company has made numerous misleading claims about its ability to trace supply chain – in particular pointing to its Timflow GPS tracking system. The company claims that, “Every truck delivering logs to the company’s saw mills is equipped with a GPS device which proves the logs’ exact loading place.”<sup>25</sup> While this is true, the “loading place” for nearly half of these trips is merely a log depot – bringing Schweighofer no closer to knowing the actual forest origin of the logs (see figure 2). For these purchases, Schweighofer remains exposed to logs sourced from national parks, virgin forests, and illegal logging.

**SUMAL AND FOREST INSPECTOR – REAL TRANSPARENCY OF WOOD TRANSPORTS**

Since 2014, Romania requires electronic registration of all wood products transports into its SUMAL database. Using a GPS-enabled smartphone or device, truck drivers must register their journey before they begin driving. Once the truck reaches an area with cell phone service, this transport permit is automatically uploaded to the central SUMAL database.

In 2016, the government upgraded SUMAL, creating a public user interface called Forest Inspector ([www.inspectorulpadurii.ro](http://www.inspectorulpadurii.ro)). The Forest Inspector website and mobile app provide real-time information about all timber transports in the country.



Romania’s Forest Inspector website, showing timber transport loading points

EIA





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**S**chweighofer has claimed that it refuses wood from Romanian national parks since at least 2013.<sup>26</sup> Over the past five years, NGOs and the media have exposed numerous cases of wood from national parks arriving at Schweighofer mills.<sup>27</sup> After every case, the company has claimed to have reformed its sourcing policies, maintaining that it can now exclude national park wood. EIA's latest analysis shows that Schweighofer has been breaking its promise until this day.

EIA analyzed 18 months of data from the Forest Inspector website to identify over 50 logging sites in two national parks in northern Romania where Schweighofer suppliers regularly source timber (see figure 3). The Forest Inspector website listed individual trucks loading timber within the parks. EIA linked these trucks to nearby depots that supply logs to Schweighofer. In total, since the beginning of 2017, EIA estimates that at least 35,000 m<sup>3</sup> of logs were cut from these two national parks and carried to depots supplying to Schweighofer.

***Schweighofer has been breaking its promise until this day***

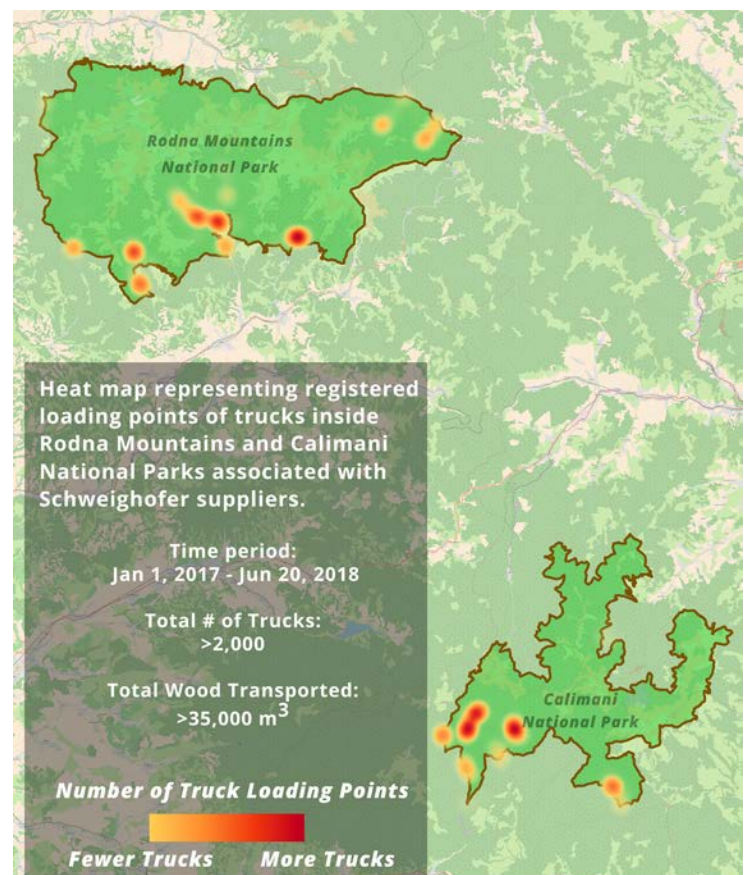


Figure 3. 18 months of national park harvesting by Schweighofer suppliers, Jan 2017 - June 2018

EIA



## FRASINUL: FRIENDS IN LOW PLACES

One of Schweighofer's largest depot suppliers is the Romanian company Frasinul. Frasinul sells logs to Schweighofer from four depots located near Rodna and Calimani National Parks. EIA's investigation confirmed that at least three of these four depots receives logs cut in the nearby parks (see figures 4 and 5). Frasinul's owner, Traian Larionesi, has a history of legal troubles, and since 2014 Romania's anti-corruption authority (DNA) has opened two investigations into him and his companies for bribery of local police chiefs to protect his illegal activities.<sup>28</sup>

In 2017 and 2018, Frasinul maintained active logging operations within both Rodna and Calimani National Parks. According to data obtained from the Forest Inspector, Frasinul trucks transported at least 6,000 m<sup>3</sup> of timber out of these parks in the 18 months to June 2018. These trucks carried many if not all of these logs to Frasinul depots near the parks. Schweighofer's mills in Sebeș and Rădăuți in turn received regular log deliveries from all of these Frasinul depots.

Frasinul even received over one million euro of funding from the EU Rural Development Fund for the construction of a logging road inside Rodna National Park – including a road leading into the strictly protected zone inside the park.<sup>29</sup>

In 2014, the DNA formally opened an investigation into accusations that several high-ranking police officers had harassed and intimidated lower-level police to make them drop charges against Larionesi's business activities and associates.<sup>30</sup> In exchange for this protection, Larionesi is reported to have given these policemen expensive gifts including cars, hunting rifles, and beer.<sup>31</sup> Under the second investigation from 2015, the DNA accuses the head of the local Forest Directorate, Gheorghe Ivan, of helping Frasinul win 84 of the 123 forest exploitation contracts in public forests auctioned between 2010 and 2012.<sup>32</sup> According to sources, both investigations remain ongoing.

In addition, Frasinul and Larionesi have been involved in a number of other local criminal cases, many of which have ended with significant fines being levied against the businessman.<sup>33</sup> Larionesi's companies received fines of hundreds of thousands of euro for unregistered logging, for clogging a local waterway for a trout fishery, and for excessive billing for government contracts for snow-clearing.<sup>34</sup>

In April 2018, Frasinul and one of its sister companies were among eight companies raided by forest police investigating illegal logging in northern Romania, including within Calimani National Park.<sup>35</sup> Authorities issued fines totaling over 30,000 euro and confiscated 900 cubic meters of timber.<sup>36</sup> Since this raid, local media and a top government official in the Ministry of Water and Forests have stepped up to protect Larionesi, claiming that no wrongdoing was found, and that he is being intimidated.<sup>37</sup>

Schweighofer's ongoing purchases from companies such as Frasinul which maintain active logging permits inside national parks cast serious doubts about the company's commitment to sustainable sourcing.

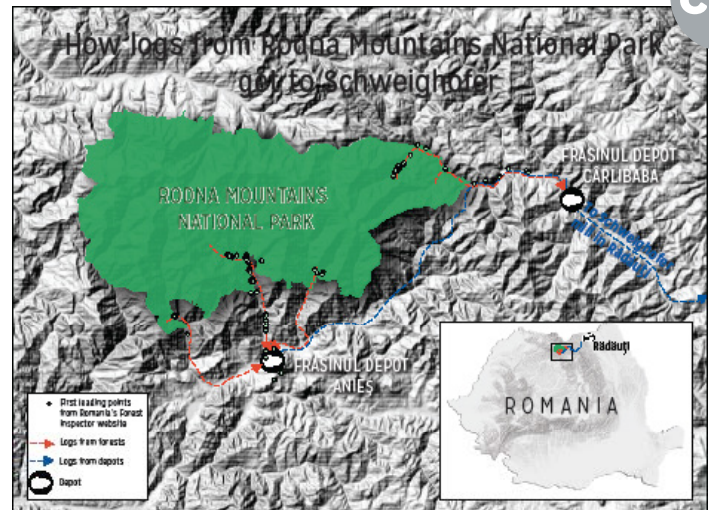


Figure 4. Frasinul logging operations in Rodna Mountains

EIA

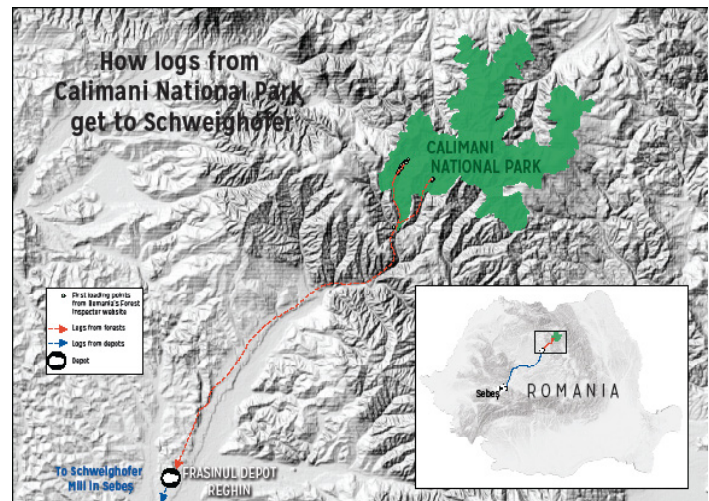


Figure 5. Frasinul logging operations in Calimani

EIA



Frasinul received EU funding to build a logging road inside Rodna Mountains National Park

EIA





# TROUBLE IN THE PARKS

Loading site in Rodna National Park

EIA

Commercial logging in national parks is widespread in Romania. Large areas of Romania's national parks are classified as "buffer zones," in which large-scale logging is authorized by the Romanian government.<sup>38</sup> EIA visits to active logging areas in late 2017 and early 2018 indicate that the type and extent of logging practiced within Romania's national parks is highly destructive and sometimes illegal.

EIA's visits focused on active logging sites in two parks in the north of Romania – Rodna Mountains National Park and Calimani National Park. Much of Rodna Mountains National Park is in private hands, the ownership having been returned to neighboring municipalities in the post-Communist period. Most of Calimani National Park, in contrast, is state-owned, and logging is managed by Romsilva, the state-owned logging company. Logging in all national park lands, whether public or private, should follow strict guidelines to ensure the protection of wildlife and to allow for recreational uses such as fishing or hiking.<sup>39</sup>

Contrary to the spirit of this mandate, and contrary to the wishes of many Romanians, the logging operations carried out in Romania's national parks differ little from those in production forests outside their boundaries. In a single site in Calimani National Park, a logging company supplying Schweighofer harvested over 4,600 trees – more than in almost any other national park site in the country in 2017. Loggers cut both spruce and beech trees on this site, under a permit for "primary felling" – standard commercial logging. After logging had been completed, the stream below remained clogged with logging wastes.

Other active logging sites linked to Schweighofer suppliers in the national parks were classified as "conservation" logging. Conservation logging is intended as selective logging of planted monoculture forests, which foresters

then replant with a mix of species in order to restore a healthy balanced ecosystem.<sup>40</sup> In many cases, forest experts say this is merely an excuse for cutting healthy trees of many species. At one such site inside a national park and logged by a Schweighofer supplier, EIA found diseased trees marked for cutting still standing, and large un-marked stumps of seemingly healthy trees nearby. To extract a small number of trees from a high ridge, loggers had cleared three large swathes down the steep hillside.

At another site in Rodna Mountains National Park, EIA found what appeared to be a thinning operation, however with a number of freshly-marked large stumps – indicating that these trees had not been previously approved by a forest official.<sup>41</sup> At another fresh logging site one kilometer away, none of the dozens of freshly-cut spruce stumps had proper markings. In one case, loggers had covered up a



Schweighofer supplier loading logs inside Calimani National Park

EIA



fresh stump with moss to avoid detection from the road below. The loading site near this logging area had no officially registered transports. A Schweighofer supplier managed the logging operation in this area, and Schweighofer received at least three truckloads of timber directly from here. EIA documented this case extensively in a December 2017 case study.<sup>42</sup>

Although large-scale clear cuts are not common in Romania's national parks, the extensive logging still common in these parks severely degrades the quality of these forests and damages fragile ecosystems that wildlife depends on. In order to preserve the last remaining intact forests, Romanian organizations are therefore demanding to end logging in national parks entirely. Schweighofer has promised for over half a decade to not buy logs cut in national parks. The company's continued dependence on depot suppliers, however, means that it still promotes these destructive logging practices.

## RHETORIC VERSUS ACTION: SCHWEIGHOFER'S FAILURE TO ENACT REAL REFORMS

On May 30, 2018, Romanian anti-mafia police raided 23 locations around Romania linked to Schweighofer, including Schweighofer's main sawmills. The raid, led by Romania's Directorate for the Investigation of Organized Crime and Terrorism (DIICOT), followed a three-year investigation that began in June 2015 after EIA first accused Schweighofer of actively incentivizing illegal logging in Romania. The alleged organized criminal syndicate includes Schweighofer, several public institutions, and other companies suspected of engaging in "misappropriation of public auctions, tax evasion, unfair competition, illegal logging and other offenses," according to DIICOT.<sup>43</sup> Separately, Romania's Competition Council is actively investigating Schweighofer and Egger, in a two-year investigation into rigged auctions.<sup>44</sup>

Over the past three years, Schweighofer has claimed that Romanian authorities consistently checked and approved of its actions, and that it operated completely in line with Romanian laws.<sup>45</sup> DIICOT's recent raid shatters this façade. The government's press release noted that these criminal activities are suspected "from 2011 to present" – indicating that Schweighofer's illegal activities have continued since they were first brought to international attention in 2015.<sup>46</sup>

In addition, Schweighofer's claimed policy revisions seem to apply only to Romania, whereas the company imports over half of the logs processed in Romania from neighboring countries, including Belarus, Ukraine, and Slovakia.<sup>47</sup> Schweighofer's Timflow GPS tracking system operates only within Romania. Given that just under half of these transports originate not from forests, but from log depots, this means that Schweighofer has GPS tracking back to the forest loading point for only around 20% of all its logs processed in Romanian sawmills.

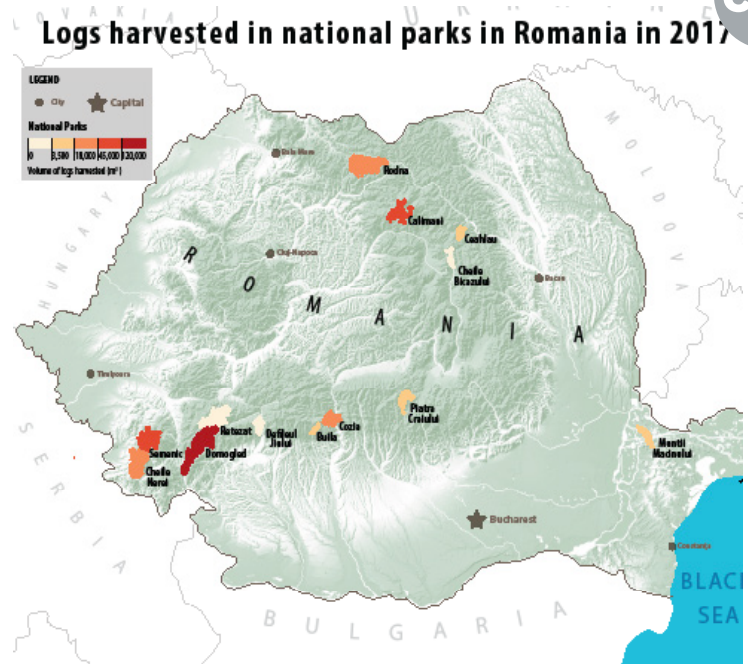


Figure 6. Heat map of logging in Romania's national parks

EIA

*The alleged organized criminal syndicate includes Schweighofer, several public institutions, and other companies suspected of engaging in "misappropriation of public auctions, tax evasion, unfair competition, illegal logging and other offenses," according to DIICOT.*



Suspected illegal logging site in Rodna Mountains National Park

EIA





# KRONOSPAN AND EGGER

Beech log delivery to Kronospan EIA

EIA's evidence indicates that all companies sourcing from third-party depots in Romania operate with same lack of traceability as does Schweighofer. EIA conducted a brief study to get a view into the raw materials supply chains feeding Kronospan and Egger - two of the other largest wood products companies in Romania; both are Austrian, and both have close business links to Schweighofer.

EIA conducted stakeouts of the mills of both companies, recording the license plates of every truck entering the mills in a given time period. EIA then searched for these license plate numbers in Romania's Forest Inspector website, to determine the origin of any trucks delivering wood products.

Both Kronospan and Egger produce more highly processed products than Schweighofer. For this reason, both companies process fewer logs than Schweighofer, and fewer of the trucks seen arriving at each mill showed up in the Forest Inspector system. Every shipment of logs or lumber in Romania must register an official transport permit – which immediately becomes public on the Forest Inspector website. Drivers must register transports of wood chips and other scraps for first transports – direct from forests – but not if they come from sawmills or log depots.<sup>48</sup> Many forest experts see this as a serious loophole, allowing large amounts of biomass to be smuggled out of the forests. In one instance, EIA witnessed loggers feeding a large mobile chipper with whole spruce trees, inside a national park. In this single day, investigators watched the chipper fill four large trucks with wood chips. None of these four trucks were registered in the Forest Inspector system – meaning all four of these transports were completely illegal and untraceable.

## KRONOSPAN'S RISKY LOG SOURCING

Within a five-hour period, EIA recorded 137 trucks entering Kronospan's Sebeş factory. Of these, 86 were

covered trucks; 19 carried chips or other wood scraps; and 30 carried whole logs. The Forest Inspector website indicated that 22 of these log trucks came directly from forest loading sites, while 8 came from depots. 18 were



Mobile chipper inside Rodna Mountains National Park

EIA



"Eyes" cut by Kronospan supplier inside a conservation area

EIA



registered as carrying firewood quality logs, while 12 of the log trucks had standard logs. Most of the chip and covered trucks were not registered, but these could have been legal had they originated from a depot or were empty.

EIA investigators visited a forest where one of these log trucks supplying Kronospan had originated. This site was a beech forest located within a Natura 2000 conservation site just 30 km from Kronospan's Sebeș factory; this despite the fact that Kronospan claims it can "ensure that suppliers do not use wood from national parks, natural preserves, virgin forests and other conservation areas."<sup>49</sup>

Near the loading site, EIA found an ongoing logging operation in which loggers were cutting a series of seven so-called "eyes" – small clear-cut circles at regular intervals. Such a logging operation is common in commercial forests, but less so in protected forests, where logging operations are required to follow strict standards to ensure protection of local flora and fauna.<sup>50</sup> Loggers had turned a stream into an illegal logging path, and dragged logs for 700 meters down to the loading site in the valley below.

EIA tracked one of the log trucks seen delivering to Kronospan over a period of two weeks. During this time, the truck loaded regularly in two sensitive ecological zones not far from Kronospan's Sebeș factory. These conservation areas are classified as Natura 2000 sites, meaning that they are subject to special protections at the European Union level.<sup>51</sup> In some cases, this truck delivered these logs directly to Kronospan, while in others it delivered logs to a nearby depot, which itself is known to supply Kronospan.

Kronospan's website states that the company is concerned with sustainability; claiming it sources its raw materials from "wood residue from the sawmill industry" – scraps, unused and unwanted product that would otherwise be wasted.<sup>52</sup> The high number of large logs that EIA observed entering Kronospan's factory on a single day belies this claim. While many of these logs were classified as "firewood" quality, a large number were high-quality sawlogs.

In recent years, Romania has faced a crisis of access to firewood. The cost of firewood has increased significantly, and local communities have struggled to obtain sufficient supplies to heat their homes through the winter. The appetites of large wood processors like Kronospan for firewood quality logs has a significant impact on Romania's mountain communities.

## EGGER'S UNKNOWN SUPPLY CHAINS

Egger is an Austria-based wood products company with factories across Europe. Its Romanian factory in Rădăuți, adjacent to Schweighofer's sawmill, produces oriented strand board (OSB) and chipboard.

Over a span of a few hours, EIA observed 20 trucks entering the factory of Egger in Rădăuți. None of these trucks were registered in the Forest Inspector system. As noted above, if these trucks carried logs or boards, they would need to be registered in the SUMAL government electronic tracking system. If these covered trucks carried wood chips, shipments from forests must be registered in SUMAL; shipments from depots or sawmills are not required to be



Chip truck arriving at Kronospan factory

EIA

registered in SUMAL.

EIA also observed six loaded log and chip trucks exiting Schweighofer's gate and directly entering Egger's neighboring gate. This highlights the position Egger holds in the supply chain – the company is dependent on its raw material suppliers to ensure the legality of its downstream supply chains. As seen above, even a company like Schweighofer can neither trace the actual origin, nor ensure the legality, of its log purchases; the difficulties for Egger are much greater.

Egger claims that it "sources wood from the regional surroundings of its plants," and that "the strict legal requirements in Europe ensure sustainable forestry practice."<sup>53</sup> However, the company's sourcing documentation states that the raw materials for its Romanian factory come from a total of 10 different countries, chiefly Romania, Ukraine and Belarus.<sup>54</sup> It further claims 100% traceability for these products – but the meaning of this is uncertain given that even suppliers such as its neighbor Schweighofer cannot trace their log purchases.

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***Egger is dependent on its raw material suppliers to ensure the legality of its downstream supply chains***

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Truck carrying logs between Schweighofer and Egger factories

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Japan has been the #1 destination for Schweighofer timber for many years. Schweighofer's Japanese buyers include most of its largest importers – conglomerates responsible for a large portion of Japan's imports, including Hanwa, Sumitomo Forestry, Itochu Kenzai, and Sojitz.<sup>55</sup> In 2016, Japan enacted its new Clean Wood Act (CWA).<sup>56</sup> Japanese importers that registered under the CWA are required to conduct Due Diligence to ensure the avoidance of timber that was illegally or unsustainably harvested.<sup>57</sup>

In 2016, EIA published a report in Japanese, detailing Schweighofer's history of illegal sourcing of timber in Romania and from its high-risk neighbor, Ukraine.<sup>58</sup> In meetings between EIA and importers, most companies claimed that they were taking these concerns seriously. However, despite Schweighofer's loss of its FSC certification, none of the companies' main Japanese buyers have stopped importing from Schweighofer.

Japan has plenty of similar forests as those in Eastern Europe and has strong domestic logging potential. The fact that Schweighofer wood can compete directly with domestic timber on such a large scale in Japan speaks to the undervaluing of timber that Schweighofer gets from Romania, Ukraine, Slovakia and neighboring countries.



Schweighofer lumber in new house under construction in Japan

EIA

Over the past three years, many of Schweighofer's main European customers have stopped their purchases.<sup>59</sup> However, the strength of Schweighofer's Japanese market and the loyalty of its customers continue to prevent the company from establishing real reforms to its sourcing practices.

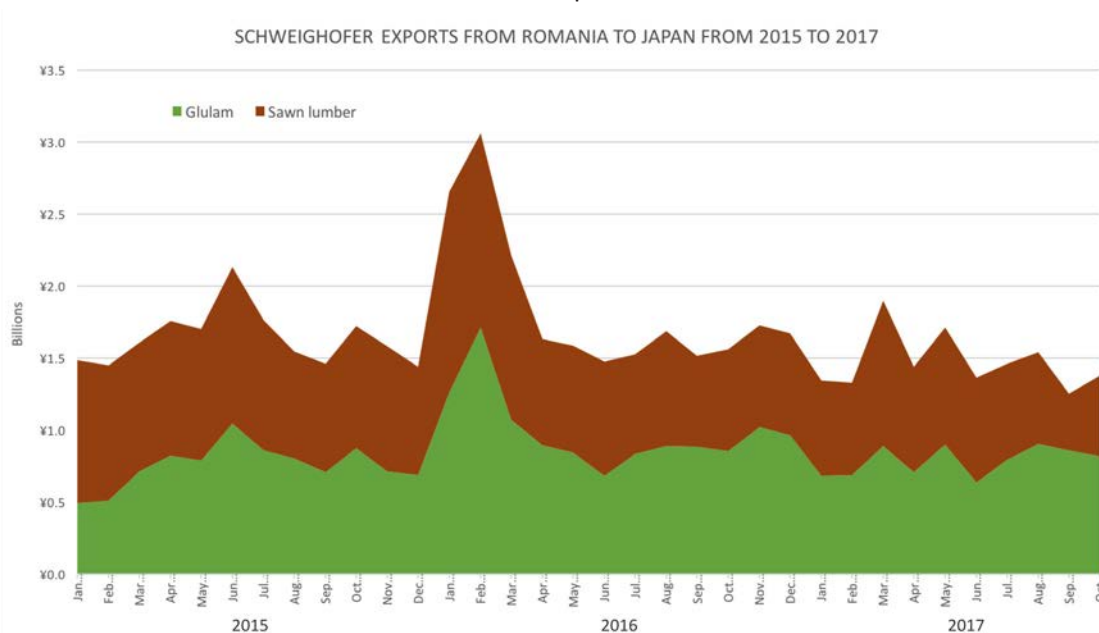


Figure 7. Schweighofer exports from Romania to Japan from 2015 to 2017





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# CONCLUSION

**T**raceability back to the forest stand is the only way to know if your wood actually comes from legal and sustainable sources. Schweighofer and other large companies are still unable or unwilling to establish a real chain of custody back to the forest for a large proportion of their log purchases in Romania. Romania remains a high-risk country for illegal logging. These companies urgently need to implement full traceability for all log purchases, if they want to comply with EU law and avoid buying illegal timber.

Romania's Forest Inspector website and app have created a unique example of real-time transparent public information on forests transports, and have had significant impacts in reducing illegal transports. However, progress has stalled over the past year. Instead of a planned expansion of the system, the Romanian government has reduced the functionality and the amount of data made available to the public. Should the government include links between harvesting permits and transports, complete the digitization for maps of all forest parcels, and devised forest management plans as previously planned, it could make Romania a model for transparent forest governance.

Romania's anti-mafia police have demonstrated their commitment to the steady enforcement of laws through their ongoing years-long investigation into the nation's largest timber processor. But as long as Japanese, American, and other foreign buyers continue to buy from companies like Schweighofer, real change in company sourcing practices will be limited.

Ten years ago, scientists estimated that Romania contained two-thirds of all the remaining virgin forests in Europe.<sup>60</sup> Ongoing studies are showing disturbing declines in these great forests, with corresponding implications for some of Europe's last populations of large carnivores.<sup>61</sup>

Romania's forests have suffered over a decade of mismanagement and neglect to feed foreign demand for cheap wood. The time has come for the Romanian government to fully involve its citizens in the transparent governance of its precious forest resources. Foreign companies operating in Romania have a responsibility to enact real traceability for all their wood purchases, as a first and critical step to ensuring that they stop fueling the destruction of Europe's last great forests.

## RECOMMENDATIONS

### Schweighofer:

- Halt all purchases of timber lacking full traceability back to forest of origin – not just the loading point.

### Kronospan and Egger:

- Urgently reassess their supply chains and establish a time-bound path towards full traceability by 2020 at the latest.

### Romanian government:

- Continue prosecution of Schweighofer; expand to other bad actors, both foreign and domestic;
- Expand the Forest Inspector website to provide more key data to the public;
- Significantly strengthen law enforcement against illegal logging and corruption;

- Stop commercial logging in national parks.
- Inspect and investigate imports from non-EU countries into Romania for compliance with EUTR due diligence and traceability requirements.

### Japanese government and companies:

- Halt sourcing from Schweighofer until the company can establish full traceability;
- Reassess the Due Diligence policies of major Japanese importers in the context of the Clean Wood Act.

### EUTR Competent Authorities:

- Work together to enforce compliance with EUTR requirements where relevant within all member states.



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**EIA - WASHINGTON, DC**

**P.O. Box 53343, Washington, DC 20009, USA TEL +1 202**

**483 6621**

**FAX: +1 202 986 8626**

**EMAIL: [info@eia-global.org](mailto:info@eia-global.org)**

**WWW.EIA-GLOBAL.ORG**

