

STEALING THE LAST FOREST:

AUSTRIA'S LARGEST TIMBER
COMPANY, LAND RIGHTS,
AND CORRUPTION
IN ROMANIA



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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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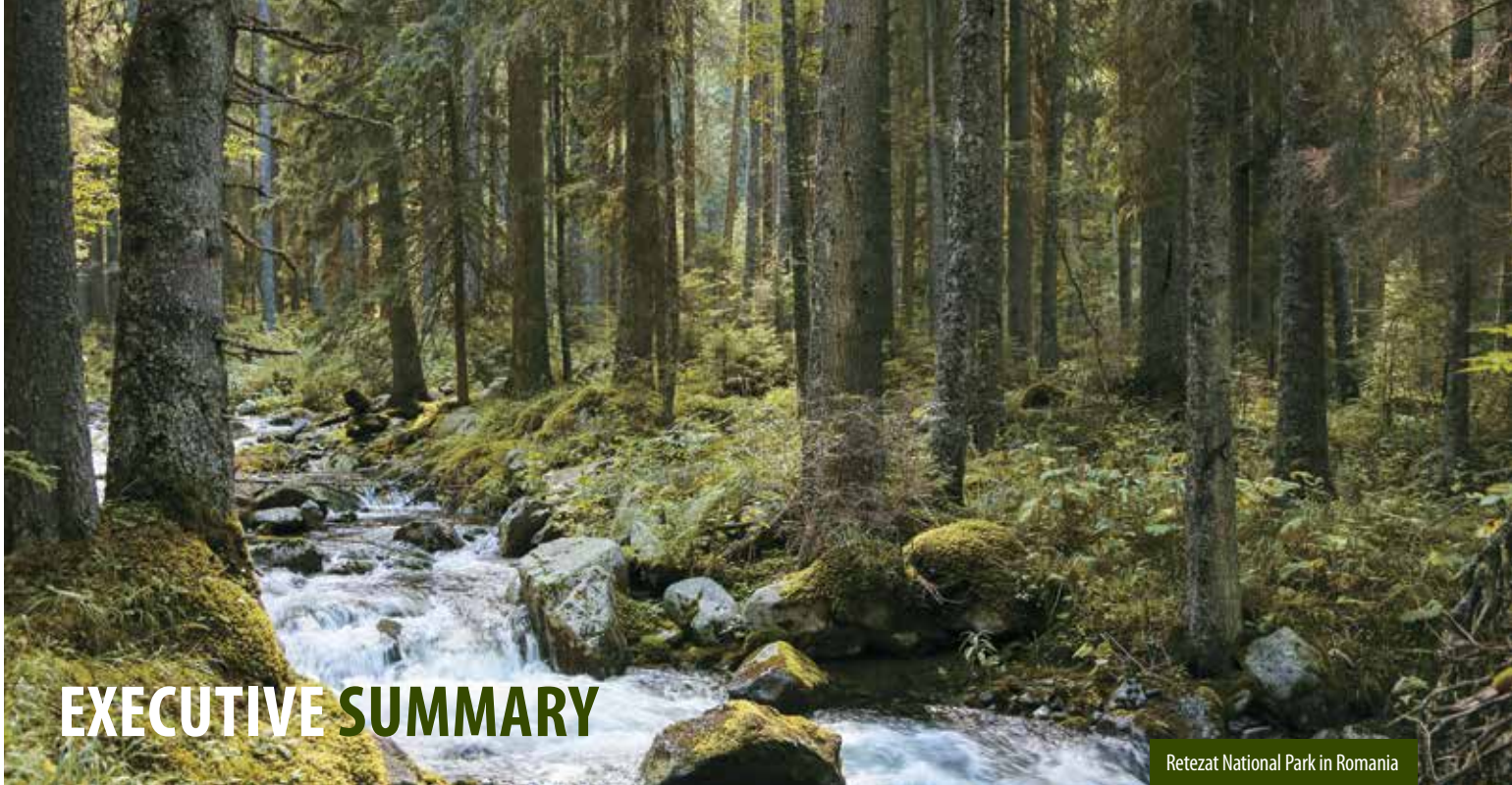
ACKNOWLEDGEMENTS

EIA would like to thank the following funders for their support:
The Tilia Fund
Good Energies Foundation
Weeden Foundation
The Cox Fund

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Cover: Agent Green



Retezat National Park in Romania

Agent Green

EXECUTIVE SUMMARY

Europe's last remaining virgin forests are being illegally logged and sold to consumers throughout Europe as bio-fuel and lumber by the continent's largest retailers.¹ The eastern European country of Romania, which contains two-thirds of Europe's last remaining virgin forests,² also home to the continent's largest populations of wolves, bears, and lynx, is now overrun by foreign companies taking advantage of its timber resources.³ Of those, an Austrian timber and wood processing company named Holzindustrie Schweighofer (Schweighofer) has taken the greatest advantage of all, and now processes around 40% of the country's total annual softwood production⁴ including large amounts of illegal wood. Schweighofer sells their pellets, briquettes and timber products to nearly every European Union (EU) member state, 21 in total.^{5,6} Its customers include Europe's top biomass companies such as Austrian firms Genol and Drauholz, and some of Europe's largest DIY ("Do-It-Yourself" home improvement) stores, including Hornbach (Germany), Baumax (Austria/Germany), and Bricostore (owned by UK-based Kingfisher) (see GRAPHIC: Schweighofer Romania's 2014 Sales to Top 25 EU Customers, p. 27).⁷

This report by the Environmental Investigation Agency (EIA) follows a two-year investigation into illegal logging in Romania. The results showed that Schweighofer has been the single biggest driver of illegal logging in the country over the past decade. The company is the largest buyer of softwood timber in Romania, and as this report demonstrates, it lacks effective measures to avoid sourcing illegal wood. An undercover investigation showed the Austrian Schweighofer official who was most influential in setting up the company's Romanian operations openly accepted illegal wood and further, offered bonuses for suppliers of illicit timber. In

most of the instances of illegal logging EIA encountered in the field, loggers sold the timber to Schweighofer's mills. Through a series of case studies covering the past decade, this report documents specific examples in which Schweighofer has received illegal timber, and shows the consequences to Romania's forests, national parks, and communities.

This report further identifies Schweighofer's largest recent European buyers, which include some of Europe's biggest biofuel and DIY stores, at a time when a new European law to stop the trade in illegal wood, the European Union Timber Regulation (EUTR), is beginning to be implemented across member states.⁸ Schweighofer has threatened the Romanian government with legal consequences if it does not weaken ongoing national forest policy reform processes that endanger their rapacious business model.⁹ Romanian civil society and politicians alike have voiced their outrage, and Romanian prosecutors have started an investigation into the company.¹⁰ Schweighofer now faces legal consequences within Romania, and its clients across Europe must confront the fact that their purchases include illegal wood as well as fuel the destruction of Europe's last great forests.

Illegal logging in Romania has been widely recognized by the government, media, and environmental activists as a serious problem for over a decade. In a study focused only on a limited set of illegal harvesting methods, the Romanian government estimated that, between 1990 and 2011, 80 million m³ of timber was cut illegally in Romania — 24% of the total volume of wood cut during this period — worth at least €5 billion.¹¹ This figure is conservative, because it fails to capture many forms of illegal logging, such as logging on land stolen from local communities through unjust and illegal restitution processes that continue unabated

throughout the country (see Case #1: Borșa, p.16).¹² A more recent study by the Romanian National Forest Inventory took a more detailed approach, including numerous field visits to logging sites across the country. This study concluded that 8.8 million m³ of timber was cut illegally each year between 2008 and 2014¹³ — equivalent to 49% of the timber cut during this period.¹⁴ It appears that this study did not take into account all forms of illegal logging, such as timber cut on illegally restituted land.

Illegal logging and poor forest governance have led to severe deforestation in once-pristine forests. An analysis of satellite data showed that Romania lost 280,000 hectares of forest between 2000 and 2011.¹⁵ Almost half of this forest lost was located within national parks and other protected areas.¹⁶

EIA's investigation reveals the many forms of illegal logging that occur throughout the Romanian forest sector (see SIDEBAR: Types of Illegal Logging Common in Romania, p.7). Common violations of harvesting regulations across the country include exceeding allowable cutting limits, illegal clear-cutting, and regular abuse of so-called "sanitary"

Taking the many forms of illegal logging documented by the Romanian government, local NGOs, and in EIA's own investigation, EIA estimates that at least 50% of all timber cut in Romania was illegally sourced.

A deforested area near Borșa in Maramureș County, Romania (see Case #1: Borșa, p.16)



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permits for cutting of diseased or storm damaged timber. Initiated in the early 1990s, the ongoing restitution process for forest land confiscated by the communist government in 1948 has also been plagued by illegalities. The Romanian government estimates that at least 20% of all public forests meant to be returned to the original owners has been illegally acquired by others, resulting in widespread disenfranchisement of the true land owners and the extensive deforestation of illegally obtained forest land.¹⁷ In most cases, organized criminal groups including government officials and politicians orchestrated these illegal restitutions using fraudulent documents and bribery.¹⁸ Taking the many forms of illegal logging documented by the Romanian government, local NGOs, and in EIA's own investigation, EIA estimates that at least 50% of all timber cut in Romania was illegally sourced (see Section 1.1: Rates of Illegal Logging). In the majority of the cases of illegal logging investigated by EIA, the Austrian company Schweighofer appeared as the destination for the illegal timber (see Part 3: Case Studies).

Schweighofer has misled its customers about its sourcing practices in Romania for more than a decade, despite purchasing around 40% of the country's softwood production and acknowledging Romania's forest sector as very high-risk. The company states that its forests are Forest Stewardship Council (FSC) certified, that all of its supplies come from Programme for the Endorsement of Forest Certification (PEFC) controlled sources, and that it refuses timber cut in national parks.¹⁹ In reality, less than 2% of its supplies come from its own FSC-certified forests and the remainder is sourced from over 1,000 separate logging companies, many of which have been prosecuted or are currently under investigation for illegal logging.²⁰ The PEFC certification that Schweighofer claims "guarantees" the legality of its sourcing does nothing of the sort: it requires only the existence of documentation that "indicates" legality,²¹ despite widespread fraud in forest sector documents in Romania. The numerous examples of illegal timber received by Schweighofer in this report illustrate the weaknesses of PEFC's paper-based CoC (Chain of Custody) system in Romania's high-risk forest sector (see Part 3: Case Studies). Although Schweighofer has claimed for at least the past two years that it

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refuses timber from national parks, EIA found that the company knowingly accepted wood from national parks until at least early 2015.²² A company representative admitted doing so to a Romanian environmental activist, who tracked a truck of timber illegally cut in a national park to Schweighofer's sawmill, and who was later beaten and pepper-sprayed by the company's guards.²³

EIA investigators met undercover with Schweighofer's top wood buyers in Romania on two separate occasions, and told them that they had a contract with a local community that allowed them to cut a certain amount of timber each year, but that the investigators instead wanted to cut twice as much. In both meetings, the Schweighofer officials stated clearly that they would accept the wood, and further described the company's bonus policy of paying the equivalent of roughly €8 extra per cubic meter for any timber shipments delivered exceeding the contractually agreed quantity. EIA released audio and video recordings of these meetings in April of 2015.²⁴

In May 2015, in response to the reports from EIA and other media sources, the Romanian Ministry of the Environment, Water and Forests (MMAP, from its Romanian name, Ministerul Mediului, Apelor și Pădurilor) ordered inspections of Schweighofer's sawmills in Sebeș and in Rădăuți, which were coordinated with inspections of suppliers in a number of regions across the country.²⁵ The government investigation of the Sebeș mill reviewed a few hundred supplier contracts out of a subset of over ten thousand contracts, comparing transportation documents (*aviz*) for log shipments to Sebeș with logging authorizations (APV).²⁶ Of this subset of contracts, the government investigation found evidence that 27 suppliers in just one county, Maramureș, had delivered over 165,000 m³ of illegal timber to Schweighofer's Sebeș mill between January 2014 and April 2015.²⁷ In addition, the report noted a large number of additional violations, including what the auditors described as the creation of illegal networks including local forest officials, supplier companies, and "local representatives of Schweighofer Sebeș" in order to give the "illusion of legality to logs purchased without legal proof of origin."²⁸

CEO Gerald Schweighofer claims that his sawmills reject all timber from illegal sources.²⁹ Yet in its supplier contracts, his company states that timber purchases provided to Schweighofer without proper legal documentation are accepted, but with a 35 RON/m³ fee.³⁰ Unless any such wood is handed over to authorities, or otherwise verified as legal, this constitutes a contractual system to gain additional profit from penalizing suppliers while nonetheless continuing to sell cheap illegal wood on to buyers. This "illegal wood fee" on illegal timber supplies matches the bonus offered to EIA investigators for wood in excess of the agreed amount, each at about €8 per cubic meter — thus any penalty that suppliers might pay for providing illegal wood without documentation,



The control room in Schweighofer's facility in Sebeș, Romania.

Holzindustrie Schweighofer Promotional Material

can be cancelled out by Schweighofer's bonus for timber in excess of signed contracts.

Schweighofer has been active in Romania since 2002. Beginning that year, Schweighofer obtained multiple ten-year contracts from the Romanian government guaranteeing the company around half of all spruce logs cut from public forests, exempting them from the standard auction process.³¹ Over the past decade, Schweighofer has grown into the largest timber buyer and processor in the country,³² and currently operates five sawmills and factories in Romania producing sawn lumber, pellets and briquettes, and laminated structural timber and blockboard (see GRAPHIC: Schweighofer's Operations in Romania, p.12).³³ Schweighofer imports around 25% of the timber used in its Romanian sawmills from other countries,³⁴ the vast majority from neighboring Ukraine.³⁵

Although Schweighofer purchases nearly all of its timber from third parties, it often has close financial ties to these suppliers.³⁶ In many cases, Schweighofer provides its suppliers with upfront financing, under contracts that oblige suppliers to provide a certain amount of timber to them. If suppliers fail to meet these targets, Schweighofer fines them (see Case #4: Pre-Contracts, p.18).³⁷ Court documents list examples in which the obligations for timber provision exceed the legal quantity allowed on suppliers' forest lands.³⁸

Around 60% of Schweighofer's exports for the European market consist of wood pellets and briquettes.³⁹ Simple sawn pine and spruce boards make up the bulk of their non-EU exports (89%), followed by structural laminated timber (10%), blockboard, and panels (<1%).⁴⁰ Outside of Europe, Japan is their largest trading partner, followed by Saudi Arabia, Israel, Kuwait, and Turkey.⁴¹

EIA's investigation reveals that Schweighofer has had a policy of willingly accepting illegally logged wood, has been a major driver of illegal logging throughout Romania's forests, and has lied about its sourcing practices for over a decade.⁴² Even though the high level of illegal logging and corruption in Romania has been well-known for many years, Schweighofer has promoted itself as an ecologically responsible company since it began its operations in Romania in 2002.⁴³ This constitutes a massive fraud against its customers over that time. Given the recent enactment of the EU Timber Regulation (EUTR), the high amount of ongoing illegal logging in Romania highlights key weaknesses of the EUTR to address illegal logging within the European Union's own borders. The large number of shipments of high-risk timber from Schweighofer throughout Europe illustrates the need for European companies to perform significant due diligence measures when sourcing from areas of high-risk of illegal logging, even when these supplies come from an Austrian company advertising 400 years of forestry experience.



PART 1. ILLEGAL LOGGING IN ROMANIA: A LONG-RECOGNIZED PROBLEM

Ecostorm

Romania's Carpathian Mountains contain some of Europe's most spectacular forests. The country has an estimated 218,500 hectares of old growth forests, more than any other country in Europe apart from Russia.⁴⁴ The last remaining Intact Forest Landscape (IFL) in Europe south of Scandinavia lies in Romania's southwestern Retezat Mountains, a continuous stretch of forest covering 97,000 hectares.⁴⁵ The large proportion of old growth forest, 3% of Romania's total forest cover, is home to Europe's most significant populations of large mammals, including brown bear, wolf, and lynx, around one-third of the continent's totals for these species.⁴⁶ Unfortunately, Romania's remaining intact forests are disappearing fast.

Over the past decade, official timber production figures have increased year on year.⁴⁷ Despite official statistics showing an increase in forest area from 1990 to 2012,⁴⁸ analyses of

Analyses of satellite footage illustrate that Romania has lost 280,000 hectares of forest, almost half of this in protected areas, during the past decade.



A logging truck seen by EIA investigators in the field. Note the license plate is visible.



The same truck about an hour later with the license plates illegally removed.

EIA

satellite footage illustrate instead that Romania has lost 280,000 hectares of forest, almost half of this in protected areas, during the past decade.⁴⁹ Official government studies have found that 80 million cubic meters of timber was cut illegally in the two decades since the fall of Communism.⁵⁰ Based on government figures and conversations with a wide range of forest and industry experts, EIA estimates that at least 50% of timber harvested in Romania is cut illegally (see Section 1.1: Rates of Illegal Logging).

Romania's exports of forest products have more than doubled over the past ten years, while exports of wood furniture have

declined. In 2004 Romania exported just over \$1 billion USD worth of wood products, but by 2014 this figure had grown to \$2.5 billion.⁵¹ In contrast, wood furniture exports in 2004 were valued at \$762 million, but by 2014 only \$628 million worth was shipped out of the country.⁵² These figures represent Romania's transformation from an economy with a rich tradition of finished-products manufacturing into a basic provider of natural resources.

The Schweighofer case illustrates the widespread nature of illegal logging and illegal land acquisition throughout the Romanian forest sector. After the fall of the Communist

TYPES OF ILLEGAL LOGGING COMMON IN ROMANIA

Illegal logging takes many forms, all of which can destroy long-term sustainable production and functionality as habitat for wildlife. These effects have severe consequences for communities dependent on the forest products industry and on the health of forest ecosystems.

1. Abuse of authorized harvesting limits – overcutting

Cutting beyond the limits of what is allowed under a particular cutting permit (APV) is one of the most common violations in the Romanian forest sector. EIA's investigative team found examples of unmarked stumps having been cut alongside marked stumps in nearly every field case of logging encountered (see Case #6: Buzău, p.19; Case #7: Corbu, p.20).

In a recent control check in May and June of 2015 by the Ministry of the Environment, Water and Forests (MMAP) on Schweighofer's sawmill in Sebeș, auditors documented a scheme by which Schweighofer offered a 10 RON (€2) per cubic meter bonus to suppliers who provided the full quantity of their approved cut (APV) as high quality timber.⁵⁵ This practice encourages suppliers to overcut beyond their legal limits, as the report notes that around 15% of the approved cut represents low-quality firewood or branches.⁵⁶ Separately, in a nine-month period in 2014, the MMAP auditors found that suppliers had created false transportation documents to cover 12,694 m³ of logs sent to Schweighofer – Sebeș in excess of contracted amounts.⁵⁷

2. Illegal restitution

As discussed in detail in Section 1.2, illegalities have plagued the process of restitution of forest land. A 2013 report from the Romanian government auditing agency, the Court of Accounts, estimated that around 20% of all restitutions of forest land between 1990 and 2012 were illegal.⁵⁸ Given that private forests make up around half of all forest land in Romania, this means that the timber harvested from around 9% of all forests in Romania is by definition illegal, given it was cut from land stolen from its true owners.

3. Abuse of sanitary regulations – bark beetle infestations

Over recent decades, infestations of bark beetles have grown ever more problematic for Romania's forests.

In many cases across Romania, loggers have cited bark beetle infestations to fraudulently acquire permits for logging of healthy, commercially valuable trees. In some cases, loggers clear cut an entire area including healthy trees (see Case #12: Sâmbăta, p.23), while in more extreme cases loggers have facilitated the spread of these beetles into healthy forests in order to obtain authorization for sanitary cutting (see Case #11: Retezat, p.22).

4. Abuse of cleaning regulations – clearing of “accidental” fallen logs

Romanian forest regulations allow for the clearing of wood felled by “accidental” causes, meaning trees that have fallen due to strong winds, landslides, avalanches, etc.⁵⁹ The Romanian



EcoStorm

National Institute of Statistics recorded that “accidental” harvests took place on over 500,000 hectares of forests in Romania in both 2012 and in 2013,⁶⁰ totaling 2.8 million m³ in 2012 and 3.6 million m³ in 2013.⁶¹ The Romanian Court of Accounts reported that, in 2012 and 2013, in only 4.2% of cases had Romanian forest officials conducted the required on-site check prior to collection.⁶² The report states that on this basis there is suspicion that, in these two years, over 6 million m³ of timber was harvested illegally in Romania under the guise of “accidental” harvesting.

5. Lack of stamps during harvest

The Romanian forest code stipulates that a certified forest engineer must mark all trees with a visible hammer stamp with paint prior to harvest.⁶³ In certain cases, such as clear cuts or circular cutting (small clear cuts in a circle) engineers have to mark only the trees around the edges of the harvesting zone.⁶⁴ However, for most examples of principle or sanitary cutting, all stumps must be marked before harvesting begins.⁶⁵

As noted above in point #3 regarding overcutting, EIA's investigation found examples of unmarked stumps in the majority of forest sites inspected (see Case #6: Buzău, p.19; Case #7: Corbu, p.20). In these examples, forest experts consulted by EIA confirmed that this cutting had in fact been illegal based on the authorization paperwork.⁶⁶ Combined with the widespread abuse of transportation stamping requirements (point #6 below), cutting of both marked and unmarked trees facilitates laundering of illegal timber.

6. Lack of stamps and documentation during transport

According to Romanian law, all logs with a diameter greater than 20 cm must be stamped with a number corresponding to an accompanying transportation document (*aviz*).⁶⁷ The *aviz* records information specific to this single shipment, including harvest location and plot number, vehicle registration number and driver's name, destination company, and exact size and dimension of all logs.⁶⁸ The *aviz* must be registered in the SUMAL (Sistem informațional integrat de urmărire a materialelor lemnoase) nationwide electronic log-tracking database before transportation begins.⁶⁹

Lack of transportation stamps makes it impossible for police or a receiving company to confirm the legal origin of a given shipment of timber during transport.⁷⁰ Although industry

experts acknowledge that violations of the requirement for transportation stamps are commonplace,⁷¹ these violations nonetheless facilitate laundering of illegal timber. In one common scenario, logging trucks make multiple trips under a single *aviz*, meaning that two or three times the legally permitted quantity can be smuggled in plain sight.⁷²

At two Schweighofer rail depots in northern Maramureș County, (see Case #1: Borșa, p.16; Case #5: Train Depots, p.18) EIA investigators found that the vast majority of logs in the yards were unmarked. In Borșa, EIA filmed the unmarked logs being unloaded from a truck that investigators had followed out of the forest from an illegal logging site.

7. False paperwork

An ex-Schweighofer employee told investigators that there is an active trade in false documents in Romania, where shell companies sell fake papers to companies that need them.⁷³ In a 2013 case, the DNA (Romanian National Anticorruption Directorate) found concrete evidence of this illegal activity. DNA investigators obtained a sheaf of blank *aviz* papers, already stamped by the local Romsilva forest bureau, some of which had allegedly already been used to transport illegal wood.⁷⁴ These pre-stamped documents are essentially “signed blank checks” for laundering illegal timber, meaning that forest officials never compared and confirmed the listed materials with the actual timber transported (see Case #2: Alredia, p.18; Case #3: Rădăuți sawmill, p.18).

8. Illegal logging practices on site

Some logging that may be on a legal concession and may be legally recorded in government statistics is done in a way that directly breaks the rules of forest management and in this way destroys the landscape and sustainability of the area. This includes illegal clear cutting, cutting near and destroying very sensitive freshwater streams and ecosystems, and polluting logging sites with contaminants. These practices are particularly destructive in sensitive areas such as Natura 2000 land, where limited sanitary logging may be allowed. EIA found illegalities of this type on every logging site that it visited in the field.



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government in 1989, Romania set its course on a path of restitution and restoration of rights over land appropriated by the State in 1948. Despite these objectives, the lack of effective judicial oversight and pervasive corruption has led to widespread disenfranchisement of the true land owners, and the enrichment of organized criminal networks and corrupt officials, as well as extensive deforestation of illegally obtained forest land.⁵³ Similarly, restitution of Romania's State-owned lands and protected areas has fostered a management culture shift towards short-term profits and away from conservation.⁵⁴ Foreign companies, chiefly but not exclusively led by Schweighofer, have taken advantage of this system to earn record profits. Combined with a lack of funding for forest protection officials, these factors have led to the disastrous deforestation and decline in Romania's domestic forest products industry over the past 25 years.

SECTION 1.1: RATES OF ILLEGAL LOGGING

There are many types of illegal logging in Romania, all of which are destructive to the forest and Romania's economic future. These include harvesting over allowable limits, harvesting in violation of sanitary or clearing permits, clear-cutting where this practice is not allowed, and others (see SIDEBAR: Types of Illegal Logging Common in Romania, p.7). Due to a lack of adequate personnel and funding for forest law enforcement,⁷⁵ government controls in the forest are infrequent and fail to detect a large proportion of illegal logging, making it difficult to estimate the full extent of illegalities in the forest sector. Different groups have attempted to estimate the actual rate of illegal logging using various methods, each capturing different aspects of illegality. Combining the results of these studies with qualitative assessments from field investigations and conversations with Romanian forest experts, EIA estimates that at least 50% of all timber harvested in Romania is illegal.

A 2013 assessment report from the Romanian national Court of Accounts found that between 1990 and 2011, 366,000 hectares of forest were cut illegally (an area almost twice the size of London).⁷⁶ The Court of Accounts is a government institution tasked with auditing the activities of other Romanian state agencies.⁷⁷ The report estimates that the illegal clearance represents nearly 80 million m³ of timber stolen from Romania's forests, conservatively valued at €5 billion.⁷⁸ Between 1990 and 2011, the Romanian National Institute of Statistics (INS) recorded that operators harvested 338 million m³ of timber.⁷⁹ Based on these figures, the Court of Accounts report indicates that illegal logging of this type makes up around 24% of all wood harvested in Romania.

A recent study by the Romanian National Forest Inventory of the Forestry Research and Development Institute, which included numerous field visits to logging sites across the country, estimated that 49% of all timber cut in Romania

between 2008 and 2014 was illegally harvested – 8.8 million m³ per year.⁸⁰ This study did not consider whether the forest land had been the subject of illegal restitution – adding this element would mean that over 50% of timber cut in Romania was illegal in nature.

The same Court of Accounts report also found that 561,169 hectares of the more than 3 million hectares of forest land restituted by the government to private actors was done so illegally, also equal to roughly 20% of the total land restituted.⁸¹ Compared to the total forested area in Romania of 6.5 million hectares in 2010,⁸² this report indicates that the timber harvested each year from at least 9% of the forests in Romania is illegal due to having been cut on illegally acquired land.

Nostra Silva, an association of forest holders in Romania, applied a different method to estimate the amount of illegally logged timber, focusing on softwood lumber production.⁸³ They calculated the total amount of standing timber needed to produce the officially-declared figure of softwood lumber production in Romania, of 3.6 million m³ in 2013. They concluded that nine million m³ of standing timber would have to be cut to produce this much lumber – two million m³ more than the seven million m³ officially recorded.⁸⁴

EIA's field visits found multiple examples of abuse of sanitary or "accidental" cutting permits (see Case #12: Sâmbăta, p.23; Case #11: Retezat, p.22). The recent Court of Accounts report found that Romanian forest officials conducted the required pre-clearing on-site inspection in only 4.2% of cases of "accidental" clearing in 2012 and 2013.⁸⁵ The authors state that there is suspicion that the remainder of cutting – around 6.2 million m³ of timber – was harvested illegally in Romania under the guise of "accidental" harvesting. The Romanian INS recorded 38.4 million m³ of standing timber harvested in 2012 and 2013, meaning that as much as 16% of all harvested timber in Romania might have come from illegal "accidental" clearing.

A recent study by the Romanian National Forest Inventory . . . estimated that 49% of all timber cut in Romania between 2008 and 2014 was illegally harvested . . .

Taken together, these summary reports provide strong evidence that at least 30% of logging is illegal based on overcutting and cutting on illegally acquired land alone. This figure leaves out six out of the eight major categories of illegal logging largely uncounted (see SIDEBAR: Types of Illegal Logging Common in Romania, p.7). Falsified "sanitary" or "accidental" logging, for example, would be registered as "legal" in government statistics, if not caught by forest police in the field. Violations of specific harvesting regulations near waterways and in Natura 2000 areas, which were particularly prevalent in EIA's field visits, would also not be considered in the above estimates. Based on field investigations and conversations with Romanian forest experts, EIA estimates that at least 50% of all logging in Romania is illegal under one or more of these categories.

SECTION 1.2: RESTITUTION PROCESS AND ILLEGAL LAND ACQUISITION

In 1948, the new Communist government of Romania declared the end of private land ownership, seizing all land in the country and placing it under direct State control.⁸⁶ Since 1990, Romania's new governments have sought to return these lands, including forested land, to the descendants of their original owners through a series of four "restitution" laws (see SIDEBAR: Romania's Land Restitution Laws, below).⁸⁷

The four laws that permitted the restitution process have been continuously revised to give away ever-larger areas of Romania's forests.⁸⁸ The first law, in 1991, permitted

ROMANIA'S LAND RESTITUTION LAWS

Law 18/1991:¹⁰⁸

Allowed restitution of 1 hectare of forest to each legal heir (or 10 hectares per family).¹⁰⁹ This equaled approximately 350,000 ha, or 5% of Romania's total forest area.¹¹⁰

Law 1/2000:¹¹¹

Extended restitution to all community, town, and communal forests, up to 10 hectares for individuals and up to 30 hectares to churches. Private forests then covered about half of the total forest area in Romania.¹¹²

Law 247/2005:¹¹³

Further expanded restitution to the entire forest area claimed by former owners, regardless of size and protected area status (excluded under previous laws).¹¹⁴

Law 165/2013:¹¹⁵

Extended restitution beyond private lands confiscated by the Communist government in 1948. Where conflicting title documents exist for a single plot of land, the claimants can receive a monetary compensation or public lands other than what was originally claimed.¹¹⁶

THE GHICA COMANESTI ILLEGAL RESTITUTION CASE

individuals to claim only one hectare of forest land.⁸⁹ After 2000, claimants could obtain 10 hectares of forest per request.⁹⁰ In 2005, the Romanian government again modified the law to allow unlimited areas of forest to be granted by the State.⁹¹ Finally, in 2013, new revisions allowed restitution of forest land that already belonged to the State before 1948.⁹² Since 1990, approximately half of Romania's 6 million hectares of forest land have been privatized through the restitution process.⁹³ The new 2013 revisions have in effect opened up the other half of this land for restitution.

The rationale behind the 2013 law proves the extreme failure of previous restitution processes, because it allows for granting of formerly State-owned lands to claimants in cases where their own land claims have already been granted to others (by definition, illegally).⁹⁴ Viorel Hrebenciuc, the President of the Chamber of Deputies of Romania, who signed the 2013 restitution law into effect, has been indicted in one of the largest illegal restitution and corruption scandals to plague the country.⁹⁵ This case, covering 43,000 hectares related to the Romanian noble family Ghica Comanesti, was used to justify the drafting of the 2013 law (see SIDEBAR: The Ghica Comanesti Illegal Restitution Case, p.9).⁹⁶

In thousands of cases around the country, organized criminal groups have fraudulently forged documents and bribed officials, in order to obtain large amounts of forest land slated for restitution.⁹⁷ In most cases, these forests are immediately sold to wealthy buyers, and the timber is often cleared as quickly as possible to make a quick profit.⁹⁸ In the case studies below, EIA profiles Schweighofer's key role in many such illegal restitutions of forested land, as either a buyer of the land or of the timber obtained from the land (see Case #1: Borşa, p.16; Case #8: The Three Mountains, p.21; Case #9: Kendeffy, p.21; Case #7: Corbu, p.20).

As noted above, the Romanian National Court of Accounts in 2013 completed an extensive study of the restitution process, finding that around 20% of all restitutions had been conducted illegally.⁹⁹ The illegally restituted land covers an area more than twice the size of the country of Luxembourg.¹⁰⁰ In many cases, the auditors found that the claimants did not have legitimate claims to the land – either that their claims were based on forged documents, the land they claimed was actually State land before 1948 (see Case #9: Kendeffy, p.21), or they simply had no documentation whatsoever. Instead, their claims had been granted based solely on witness testimony.¹⁰¹ In other cases, the auditors found evidence that judges had refused the Romanian State's right to defend its claims, and in others still, judges and officials who had presided over the case, had themselves received land from the deal (see Case #1: Borşa, p.16).¹⁰² Only recently have some of these trials finally ended in convictions (see Case #8: The Three Mountains, p.21).¹⁰³ In nearly every case of illegal restitution of forest land noted by the auditors,

The Ghica Palace in Comănești



Public Domain

The noble family Ghica is one of the most famous in Romania's pre-Communist history, and has produced numerous princes and prime ministers through the end of the 19th century. In 2005, an individual named Elie Vlad Sturdza claimed that he was the heir and sole true inheritor of this noble family, which in the 19th century owned nearly 56,000 hectares of forest land. Sturdza made an official request for restitution of 30,000 hectares to the prefect in Bacau County. His initial claims were rejected by reason that he was not closely enough related to the former landowner.¹¹⁷ Romsilva officials further produced documents showing that only one third of the property in question was eligible for restitution, the rest having already become State property before the start of Communist rule.¹¹⁸

Despite having lost the case in several courts, the Sturdza family eventually won 43,000 hectares of forest land, granted by three judges in Covasna county.¹¹⁹ Six months after this final decision, two agents of the Sturdza family signed a purchase agreement for this forest land with a German energy company, Prokon Hit Timber LTD for €140 million.¹²⁰ Before the transaction could take place, however, Prokon went bankrupt.¹²¹ From 2012 until 2014, Romsilva officials tried in vain to reverse this restitution decision, and the case was eventually taken up by anti-corruption prosecutors from the DNA.¹²² In September 2014, the DNA announced that the restitution was indeed illegal, and stated that the Romanian state had lost €300 million because of the restitution.¹²³ Court records from the anti-corruption investigation include taped recordings between the defendants stating that Schweighofer was seeking to purchase the land.¹²⁴ Due to the ongoing DNA case, as of mid-2015 this forest remains untouched.¹²⁵

In relation to this illegal restitution, DNA prosecutors indicted several individuals for graft, abuse of power, and

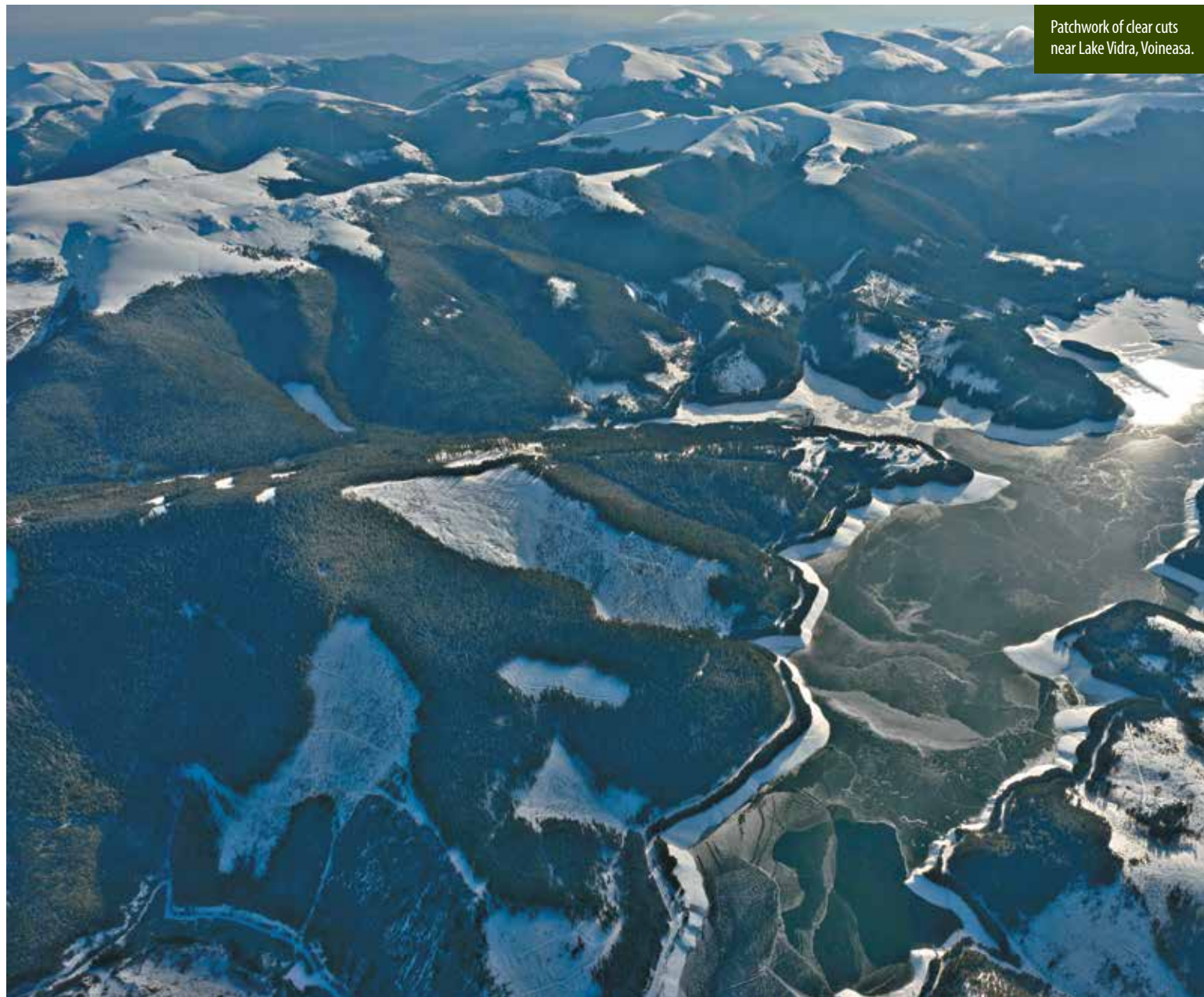
organized criminal activity.¹²⁶ The defendants include members of the Romanian national parliament, including the father-in-law of the current Prime Minister, Victor Ponta, the lawyers and agents of the Sturdza family, and even the current director of Romsilva.¹²⁷

The DNA prosecutors found that these officials and judges colluded to expand the Sturdza claim from 30,000 hectares to 43,000 hectares, with the extra 13,000 hectares being divided among the officials in exchange for approving the restitution.¹²⁸ This specific case provided the justification for the 2013 national restitution law, allowing restitution of lands belonging to the state before 1948, in order to account for the land which official documents showed had already been legally granted to the State before 1948.¹²⁹ The President of the Romanian Chamber of Deputies, Viorel Hrebenciuc, who signed the 2013 national restitution law into effect, is one of the defendants indicted by national prosecutors in the Ghica Comanesti case.¹³⁰ Another defendant in this case is Tudor Chiuariu, the former minister of Justice, who was president of the Commission that enacted the Law 165/2013.¹³¹



George Ghica, founder of the Ghica family

Public Domain



Patchwork of clear cuts near Lake Vidra, Voineasa.

Matthias Schickhofer

logging began almost immediately following the initial approval.¹⁰⁴

The Court of Accounts notes that by 2010, the total amount of land requested by individuals for restitution — 3.4 million hectares — had already exceeded the amount of land that was appropriated by the Communist government in 1948 — 2.8 million hectares.¹⁰⁵ The auditor's report is explicit about the impact of corruption on the restitution process, stating, "Illegal forest restitutions were carried out mainly with abuses of power by local politicians connected to officials and to people close to their circles."¹⁰⁶ At the same time, the claims of a very large number of descendants of previous forest holders remain stuck in courts — Nostra Silva, an association of forest holders, estimates that over a million hectares have yet to be restituted.¹⁰⁷

The outright fraud and corruption that continues to pervade the restitution process, and therefore the Romanian land tenure regime, calls into question to legality of much of its timber sector.

SECTION 1.3: ROMSILVA'S MISMANAGEMENT OF NATIONAL PARKS AND STATE FORESTS

Romsilva is a State-owned company, under the MMAP, that has managed all of Romania's public forests and most of its national and natural parks since 1996.¹³² In recent years, the company has been highly criticized for corruption and mismanagement, in particular for profiting from significant commercial logging in Romania's national and natural parks.¹³³ The agency has been plagued by corruption scandals at the national, county, and local levels, and even its director is currently under investigation for graft and involvement in

organized crime in a case involving the illegal restitution of 43,000 hectares (see SIDEBAR: The Ghica Comanesti Illegal Restitution Case, p.9).¹³⁴

Following the restitution process (see Section 1.2: Restitution Process and Illegal Land Acquisition), Romsilva now administers 3.23 million hectares of public forests, in addition to 1.14 million hectares of private forests for which they have

In 2013, Romsilva earned an estimated five times the amount it spent on management, €15.5 million, from timber extraction in national parks and other protected areas.

won management contracts.¹³⁵ Romsilva earns a significant profit through timber sales and granting of harvesting permits to third party logging companies. In 2014, Romsilva and other companies cut just over 9 million m³ from the public forests it manages.¹³⁶ Schweighofer is one of Romsilva's biggest clients, and directly purchased an estimated 330,000 m³ in 2014 (this figure does not include Schweighofer's indirect purchases from Romsilva's land through third parties).¹³⁷

Romsilva's remit over Romania's national and natural parks comes from a series of ten-year contracts with the MMAP.¹³⁸ In 2014, the government renewed the largest such contract, covering 16 out of the 23 parks Romsilva manages (out of the country's 28 total parks).¹³⁹ Romania's forest laws allow the classification of large portions of its national parks and protected areas as open to "sustainable use," including limited logging activities.¹⁴⁰ Allowed practices include primary cutting, sanitary cutting of diseased trees, and clearing following storm damage.¹⁴¹ Romsilva manages cutting in national parks

and protected areas with the same permit and authorization processes it applies to public lands across the country.¹⁴²

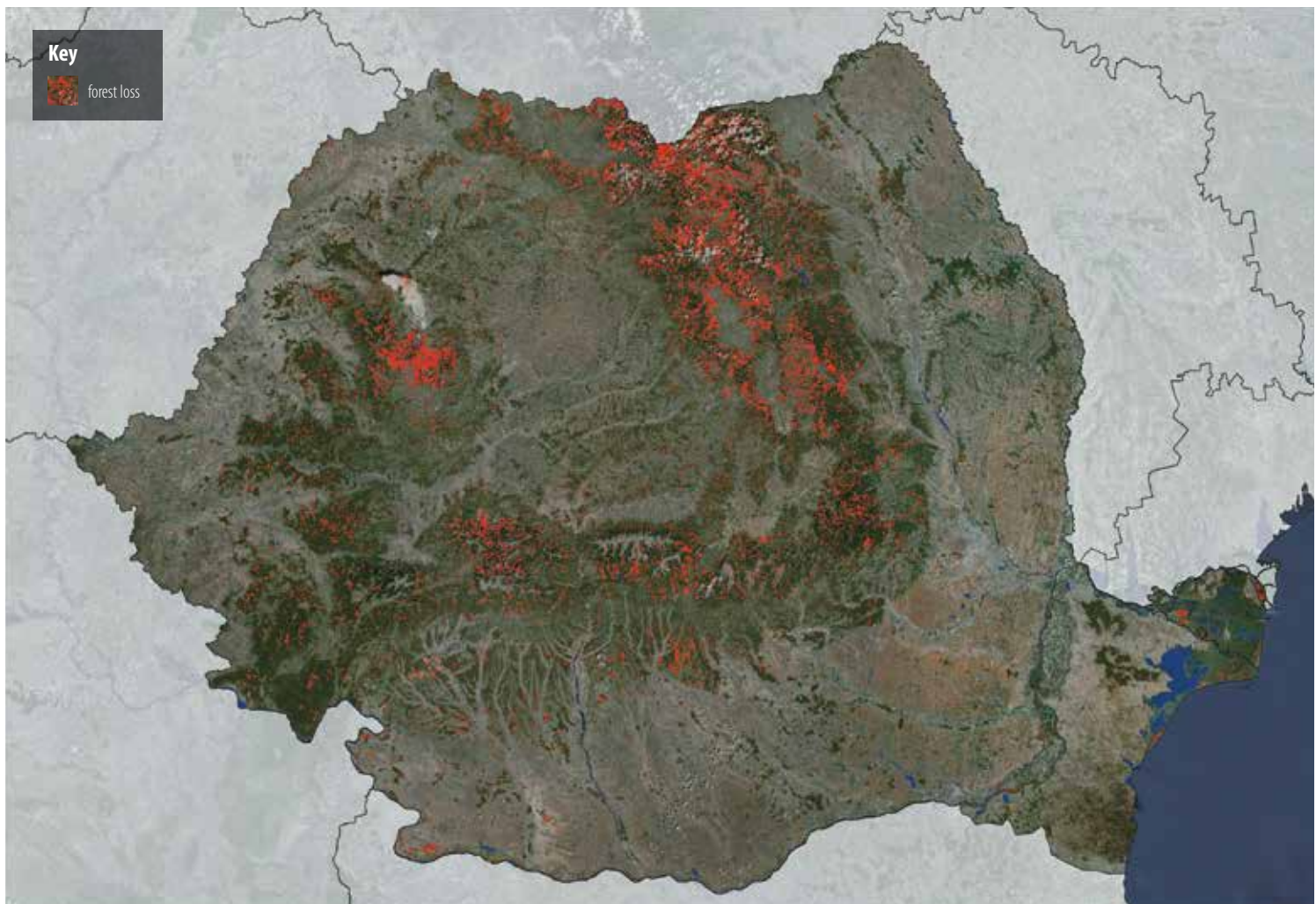
Romsilva has long been criticized by environmental groups for its poor management of Romania's national and natural parks.¹⁴³ During its initial ten-year mandate from 2004 until 2014, Romsilva failed to create proper management plans, a first step in protected area management, for two-thirds (16 out of 23) of the national and natural parks it administers.¹⁴⁴

Romanian NGOs have criticized Romsilva's lack of transparency.¹⁴⁵ Despite the company's role in safeguarding Romania's public forests, Romsilva does not publicly release statistics about the amount of harvesting it allows on public forest lands.¹⁴⁶ Nor does Romsilva release information about the profits from its own forest management activities. An internal Romsilva document leaked in 2014 states that in 2013, the company spent €2.53 million for management of the 573,000 hectares of forests in the national and natural

parks under its jurisdiction.¹⁴⁷ It further notes that harvesting rates in its parks vary from 0.6 to 4 cubic meters per hectare per year, and that it sells timber for an average of 120 RON (€27) per cubic meter.¹⁴⁸ Taking a conservative average of one cubic meter per hectare per year of harvests gives a total of 573,000 m³ per year of timber harvested by Romsilva from Romania's national and natural parks. This means that, in 2013, Romsilva earned an estimated five times the amount it spent on management, €15.5 million, from timber extraction in national parks and other protected areas.

Romanians acknowledge the poor performance of Romsilva as a forest manager. In a nation-wide poll conducted in early 2015, Romanians surveyed gave Romsilva a score of 3.4 on a scale from one to ten (where ten is the best) for the quality of its forest management.¹⁴⁹ In the same poll, forests ranked as the most sensitive environmental topic for Romanians, and 90% rejected the idea of commercial logging in national parks.

FOREST LOSS IN ROMANIA 2000-2014



Sources: calculation by Greenpeace Romania, Corine Land Mapping Lab on the basis of Global Forest Change 2000–2014; data provided by Department of Geographical Sciences, University of Maryland, Hansen et al. 2014, adapted by Greenpeace Romania, Corine Land Cover 2006, www.gadm.org



PART 2. THE CASE OF SCHWEIGHOFER

Holzindustrie Schweighofer's sawmill in Sebeș, Romania.

Agent Green

SECTION 2.1: SCHWEIGHOFER IN ROMANIA

Following the collapse of its Communist government in 1989, Romania set itself on a path of European integration. Western European timber companies, having long before exhausted old-growth forests in their own countries, moved in and quickly gained control of the Romanian timber industry. Leading this charge was Schweighofer, a 400-year-old company regarded as a green leader in its native Austria.¹⁵⁰ EIA's investigation uncovered numerous instances in Romania where Schweighofer profited from purchases of illegal timber and bought forest land which had been stolen from its true owners. The company registered sales of €465 million in 2013, with profits totaling €96.5 million.¹⁵¹

Prohibited by law from buying land in Romania, Schweighofer established a local Romanian entity, Cascade Empire SRL, in 2002, which set out to acquire vast amounts of forest land during Romania's post-communist land restitution process.¹⁵² Both Cascade Empire SRL, and Ocol Silvic Cascade Empire (which manages Cascade Empire's forest lands) are fully owned by Austrian-based companies in Schweighofer's corporate structure; therefore, control of and profits from these companies lie outside of Romania, in violation of the spirit, if not the letter, of Romanian land laws.¹⁵³

As noted above (see Section 1.2: Restitution Process and Illegal Land Acquisition), Romania's land restitution process has been plagued with illegalities, and Schweighofer's forest purchases in Romania have been no exception. Conversations

with multiple forest experts have revealed that at least half of the forest land that Schweighofer currently owns is the subject of contested restitutions (see Case #9: Kendeffy, p.21) or where the illegal restitution has been confirmed by Romanian courts (see Case #8: The Three Mountains, p.21).¹⁵⁴ In some cases, Cascade Empire agents were active participants in the illegal restitution process (see Case #8: The Three Mountains, p.21).

More than forest land ownership, Schweighofer's success in Romania has come from its virtual monopoly over softwood timber purchasing. In 2002, the Romanian parliament under Prime Minister Adrian Nastase (later convicted and imprisoned for corruption, bribery, and blackmail in separate cases)¹⁵⁵ passed an emergency order under which companies processing over 20,000 m³ of timber per year could obtain three to ten year contracts from Romsilva.¹⁵⁶ In 2002 and 2003, Schweighofer signed a number of ten year contracts with Romsilva totaling an estimated 1 million m³ per year of timber, exempting them from competition in the standard public auction system.¹⁵⁷ Schweighofer built or purchased four major manufacturing centers spread along Romania's forested Carpathian ridge, which currently process 2.3 million m³ of softwoods annually, around 40% of Romania's annual allowable cut of softwoods.¹⁵⁸ The company has recently completed construction on a new factory, set to increase their total capacity to 4.5 million m³ per year.¹⁵⁹ According to Karl Schmid, Schweighofer's head of sourcing for its Romanian operations, Romania does not produce enough wood for all of Schweighofer's factories.¹⁶⁰

Karl Schmid: No, no... the thing is simple. In Romania, about seven million cubic meters of softwood is harvested. If we run in full, we need four and a half million ourselves. So, actually if we want to run in full and only with domestic wood, there's no place for others.

Romanian forest experts estimate that around 40% of the mass of standing timber is lost when converted to log form.¹⁶¹ At this ratio, only 4.2 million cubic meters of softwood logs could be produced from seven million cubic meters of softwood standing timber, meaning that Schweighofer's

SCHWEIGHOFER'S OPERATIONS IN ROMANIA

Sawmills¹⁶⁵

	BEGAN OPERATIONS	PRODUCTION CAPACITY	SPECIES	LOG ORIGIN	PRODUCTS
Sebeș	2003	1.4 million m ³	spruce & fir	90% Romania, 10% imported	planing, kiln drying, laminated timber, pellets, briquettes
Rădăuți	2008	1.4 million m ³	65% spruce & fir; 35% pine	40% Romania, 60% imported	planing, kiln drying, laminated timber, pellets
Reci	August, 2015	800,000 m ³	spruce & fir	90% Romania, 10% imports	planing, kiln drying, pellets

Factories¹⁶⁶

	BEGAN OPERATIONS	RAW MATERIALS	SPECIES	PRODUCTS
Siret	2009	100% from Schweighofer sawmills	spruce, fir, pine	Edge glue panels, finger jointed products, briquettes
Comănești	2010	75% from Schweighofer sawmills; 25% other sources	whitewood, poplar (core); fromager, ilomba, poplar, others (veneer)	Blockboard, pellets

SCHWEIGHOFER FINANCIAL STRUCTURE

Schweighofer registered sales of €465 million
in 2013, with profits totaling €96.5 million.

mills have the capacity to consume nearly all of the softwood timber produced in the country.

Schweighofer's demand for timber has exhausted supplies used by local manufacturers, decimating the finished-products wood processing sector in Romania, in effect turning Romania into a raw materials provider for biomass to be burned in Western Europe's furnaces.¹⁶² Schweighofer exports the majority of its Romanian production as pellets or rough sawn lumber with minimal processing.¹⁶³ The company's vast appetite for Romanian wood has driven up prices and sucked up supplies, pushing hundreds of small Romanian furniture manufacturers out of business, costing the Romanian forest sector tens of thousands of jobs in finished manufacturing.¹⁶⁴

SECTION 2.2: POLICY OF DESTRUCTION REVEALED IN UNDERCOVER INVESTIGATIONS

EIA's field investigation in Romania found case upon case in which illegal logging exploits from across the country ended up in Schweighofer's supply chain. In meetings with Schweighofer officials, EIA investigators sought to discover how Schweighofer, which purports to maintain strict measures for avoiding illegal timber, could have instead received illegal supplies on so many occasions. Undercover meetings with company officials revealed the true nature of their sourcing practices: Schweighofer not only accepts illegal wood, they incentivize illegal harvesting to meet their own market-leading demand.¹⁸⁶ In a country that Schweighofer officials regularly acknowledge has a very high rate of illegal logging and corruption, the company's officially stated policy is to rely solely on paper documentation provided by suppliers as proof of legality.¹⁸⁷

When offered clearly illegal timber from investigators, senior company officials on two separate occasions expressed their



Image from undercover video taken by EIA investigators in a meeting with Holzindustrie Schweighofer's purchasing managers.

EIA

"Holzindustrie Schweighofer" is in fact a complex group of companies registered in Austria, Romania, Czech Republic, Bulgaria, Hungary, Ukraine, and other countries.¹⁶⁷ Within Romania, EIA and its partners identified companies legally represented by Gerald Schweighofer, and concluded that all Romanian Schweighofer-linked companies are majority-owned by Austrian parent companies,¹⁶⁸ which are similarly connected by legal representation, and ultimately ownership, to Gerald Schweighofer.¹⁶⁹ This means that the majority of earnings from the Romanian companies accrue to their parent companies abroad, instead of remaining within Romania. This mechanism appears to be replicated across each country in which the Schweighofer group operates,^{170, 171} and serves to obscure the identity of those reaping the profits of these companies, whom EIA identified as Gerald Schweighofer and his immediate family.

At the head of this structure, owning all companies identified as part of this network by EIA and its partners, sits an entity called "Schweighofer Privatstiftung,"¹⁷² with one exception: Holzindustrie Schweighofer GmbH, which is 100% owned by Gerald Schweighofer himself.¹⁷³ The Schweighofer Privatstiftung, an entity similar to a private not-for-profit foundation, was set up with the Schweighofer Family as its primary beneficiary,¹⁷⁴ with some funds set aside for the Schweighofer Prize, a biennial prize of EUR 300,00 which the Foundation awards for innovation and competitiveness in the European forestry sector.¹⁷⁵ Gerald Schweighofer, until his death, is the sole decision maker over the funds managed by this entity.¹⁷⁶

Under Austrian law,¹⁷⁷ the Privatstiftung legal entity receives tax benefits, and should generally not be involved in business activities, save for a few exceptions.¹⁷⁸ Though

Gerald Schweighofer holds ultimate power over the management of funds, this foundation-like organization is governed by a Board,¹⁷⁹ whose members include:¹⁸⁰ Georg Erlacher, CEO of the Supervisory Board of the Austrian Federal Forests (Österreichischen Bundesforste – ÖBf) from 2001-2015 and current Schweighofer manager,¹⁸¹ Gerhard Lang, who also appears as a 1% owner of two out of three of major global wood products manufacturer, Stora Enso's subsidiaries in Austria, which were previously owned by Schweighofer group;¹⁸² Gerhard Rossler; and Peter Kickingier.

The companies in the Schweighofer group create an even greater spider web by trading amongst each other. Customs data shows trade in both goods and services between the Romanian and Austrian companies, as well as sale of Romanian timber products to Schweighofer companies in Bulgaria and the Czech Republic.¹⁸³ Additionally, Austrian corporate records show that the group makes a practice of inter-group advances and repayments.¹⁸⁴ All of these practices provide ample opportunity within the group for transnational movement of taxable profit and cash.

Holding companies related to the group in Austria proliferate. While these several real estate, holding, and investment entities create a level of separation between the Schweighofer Privatstiftung and the companies with larger direct trade operations, ultimately, the entire structure funnels upward into a single entity which receives tax benefits as a foundation, and serves to enrich the Schweighofer family, as beneficiaries of the Schweighofer Privatstiftung.¹⁸⁵

willingness to accept it and even offered to pay a bonus for timber in excess of the volume in the supplier's contract. The realities of the company's supply chain and policies constitute a willful lack of due diligence to avoid illegal wood on the part of the largest and richest wood processing company in the country. These findings offer one of the clearest examples of why document-based certification, as required by the company's PEFC certification, is not enough to guarantee legality in the high-risk environment of the Romanian forest sector.

In the second half of 2014, undercover EIA investigators posing as foreign investors who had acquired the rights to cut a specified amount of timber on land owned by a local Romanian community, met with Schweighofer's chief sourcing officials in Romania. During in-person meetings, phone calls, and emails, the investigators stated multiple times that they intended to cut more than was permitted under contract, and that they needed assurances from

Schweighofer that the company would accept that wood. On all occasions, Schweighofer officials confirmed they would buy the wood and offered a bonus for any additional wood beyond the contract limit.

An undercover EIA investigator met with Sorin Buculei, Purchasing Department Representative at their Sebeș factory in July 2014. The investigator showed Mr. Buculei a contract from a Romanian forest community, specifying that this contract allowed a total harvest of 25,000 m³ over seven years. The investigator said that, instead, he wanted to cut this total in three or four years instead. Mr. Buculei replied, "Three or four years. It is no problem for us." Later in the conversation, Mr. Buculei reiterated, "It is no problem if we sign a contract for 2,000 cubic meters per month, and then, you deliver us 3,000 or 4,000. It is no problem."¹⁸⁸

Mr. Buculei further explained that Schweighofer offers a bonus for any timber provided by a supplier, in excess of the agreed

Proveniența: Vanzătorul este obligat să respecte legile cu privire la proveniență și transport materialului lemnos.

In cazul necompletării corecte a documentelor de proveniență și a documentelor contabile cumpărătorul își asuma dreptul de a cere despăgubiri în cazul unor daune rezultate. În cazul în care se dovedește că proveniența masei lemnoase este în realitate alta decât cea înscrisă pe aviz, cumpărătorul are dreptul de a calcula penalități de 35 RON/mc pentru cantitatea livrată în luna respectivă

contracted amount, saying, “We pay also a bonus if [a supplier] delivered 3,000 [cubic meters of wood] and he signed for 2,000.”¹⁸⁹ Mr. Buculei stated that the bonus was around €8 per cubic meter. The recent report from the MMAP confirmed the existence of this bonus system, finding that Schweighofer paid as much as 50% more in some cases for timber supplies in excess of the contracted amount.¹⁹⁰

Schweighofer’s contract with suppliers also details a fee of around the same amount for any timber received without proper accompanying paperwork. A leaked contract contains the following language:

“The seller is obliged to observe the laws with regard to the origin and transport timber.

In case documents of origin and accounting are not filled in correctly, the buyer assumes the right to seek compensation for resulting damage. If it turns out that the origin of the wood is in reality other than that stated on the notice, the buyer is entitled to calculate a penalty of 35 RON / mc for the quantity delivered during the month.”¹⁹¹

Therefore, if suppliers bring Schweighofer timber lacking legal documentation, the company does not refuse this timber, but instead charges the supplier around €8 more per cubic meter — roughly the same value of the bonus offered for timber in excess of the agreed contract.¹⁹² In this way, Schweighofer has fashioned a contract that leverages knowledge of illegality to reap further profits, and then the company knowingly sells it onwards to potentially unwitting consumers.

In November 2014, EIA arranged a second meeting at Schweighofer’s Sebeș facility, this time with both Mr. Buculei and Karl Schmid, an Austrian who at that time led the company’s sourcing operations for all of Romania. By his own account, Mr. Schmid played a key role in Schweighofer’s operations in Romania since the company first started

operations in the country.¹⁹³ In the meeting, he confirmed that the company would accept the illegal timber offered by the EIA investigator.¹⁹⁴

EIA Investigator: So even if I’m limited by the contract with the community, three thousand, whatever I’ve got another three thousand, another four thousand that gets me to 20 thousand.

Karl Schmid: You are welcome.

Sorin Buculei: It is no problem.

The consistency of these replies from both key managers of the company’s Romanian sourcing operations illustrates that knowingly accepting illegal wood lies at the heart of the company’s sourcing policy. As seen in the case studies below, this willingness to accept illegal wood is not just with respect to theoretical suppliers, but a demonstrated pattern among longstanding wood providers to Schweighofer.

SECTION 2.3: KNOWLEDGE AT THE TOP: MANAGEMENT BY GERALD SCHWEIGHOFER

Gerald Schweighofer, the company’s CEO, has taken a strong lead in the company’s Romanian operations since the beginning. In 1998, Mr. Schweighofer sold many of the company’s operations in Austria and the Czech Republic to the Finnish wood products giant Stora Enso.¹⁹⁵ In 2003, he used the profits from this sale and started anew in Romania.¹⁹⁶ Mr. Schweighofer reportedly takes a very personal interest in the company’s Romanian operations. In a 2015 interview, the Austrian daily Die Presse reported that, “Owner and Managing Director Gerald Schweighofer repeatedly comes to Radauți, to visit his factory and to discuss the current production and distribution situation with the staff.”¹⁹⁷ When EIA released a video showing the undercover footage in which Schweighofer officials accepted offers of illegal timber, Mr. Schweighofer quickly released a five-minute video message in which he personally defended the company’s policies.¹⁹⁸

Such active involvement in the company’s Romanian operations has given Mr. Schweighofer a clear understanding of the high levels of illegal logging and corruption in the country, a fact that he has expressed in numerous interviews over the past ten years. As early as 2006, Mr. Schweighofer exhibited doubts about the readiness of Romania for EU membership, “Romania means a lot of problems. The bureaucracy and logistics are a disaster. There are not enough roads, the railway is disastrous. We pay in advance for our forestry machinery and trucks; we pay the reparation for the Romanian railway wagons. In the

Excerpt from Schweighofer supplier contract: If it turns out that the origin of the wood is in reality other than that stated on the notice, the buyer is entitled to calculate a penalty of 35 RON / mc for the quantity delivered during the month.

winter often nothing happens for three months. Personally, I think the EU comes too soon for Romania.”¹⁹⁹

In another interview in 2008, Mr. Schweighofer explained that illegal logging was so extensive in Romania that even certified forests had problems with illegal logging: “As long as Romania is not able to get the problem of illegal harvesting under control, I won’t FSC-certify the woodland that I possess. . . . In certified forests timber is harvested illegally just as in uncertified forests.”²⁰⁰ Instead, just a few years later, the company began the process to have all of its self-managed forests receive FSC certification. Referring to Romanian government controls of forest operations, the same interview continued that, according to Schweighofer, “The current control system is porous”, and that the soon to be introduced system does not convince him either.²⁰¹

By 2015, Mr. Schweighofer had not improved his opinion of the Romanian forest sector. In another interview, Die Presse reported that Schweighofer admitted that more wood is logged than is allowed by law and that “The problem is the control and the enforcement of the provisions. We cannot play State and control the entire supply chain down to the last detail.”²⁰²

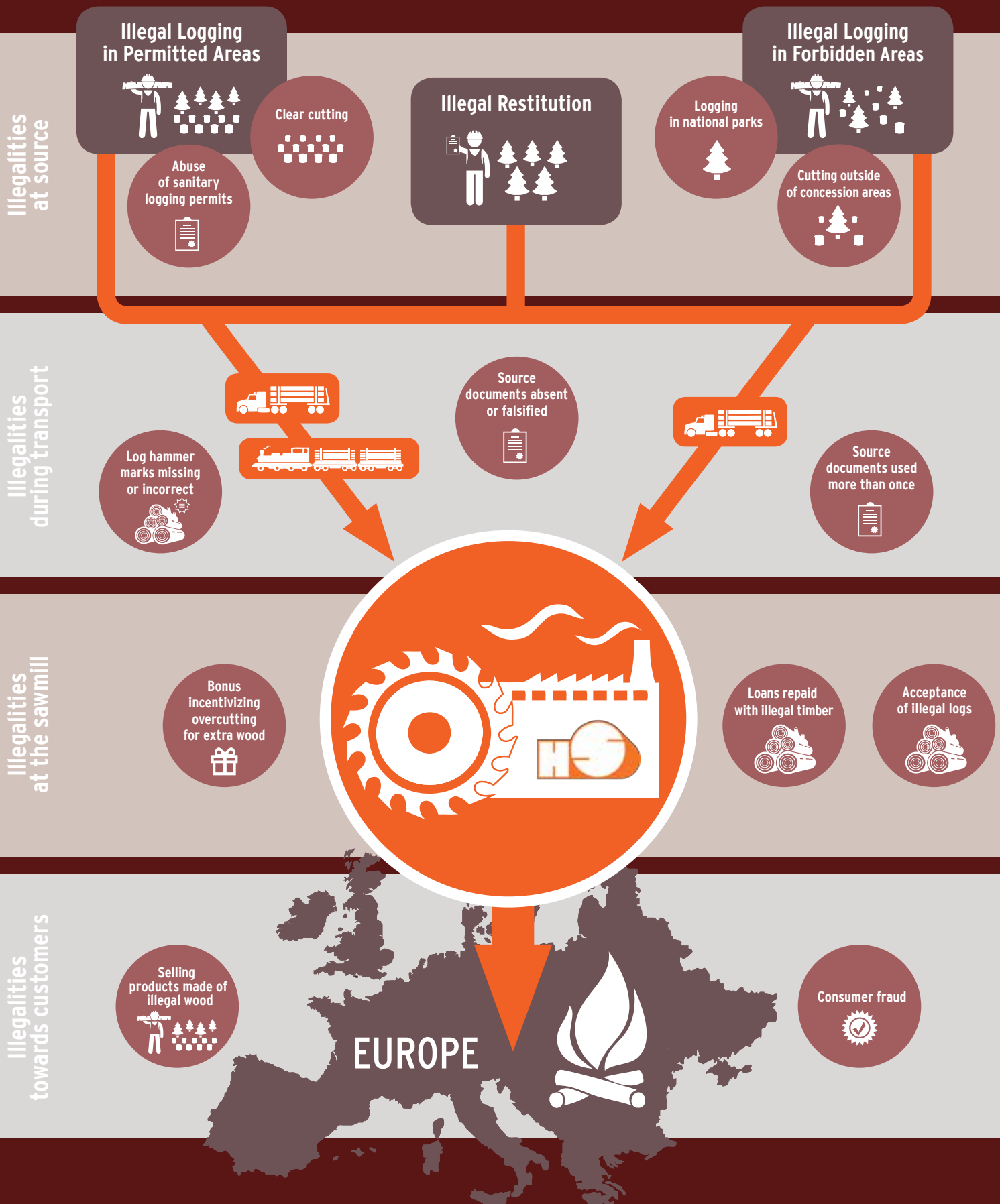
This last statement reveals the company’s attitude towards the problems in the Romanian forest sector. At every level in the company, up to Mr. Schweighofer himself, there is a keen understanding of the degree of illegal logging and corruption in Romania. Despite this full knowledge of the risks, the company relies completely on paperwork, which even Mr. Schweighofer acknowledges is often flawed. An interview from 2008 reports that, according to Schweighofer, his company only processes legal timber in its two sawmills with the required documents, but “If they are fake or not, cannot be verified.”²⁰³

According to Schweighofer, his company only processes legal timber in its two sawmills with the required documents, but “If they are fake or not, cannot be verified”.



EIA

ILLEGALITIES OF HOLZINDUSTRIE SCHWEIGHOFER'S TIMBER SUPPLY CHAIN





PART 3. CASE STUDIES: ALL ROADS LEAD TO SCHWEIGHOFER

Schweighofer's train depot in Săcel near Borșa (see Case #1: Borșa, p.16)

From 2012–2015, EIA and its partners conducted numerous field investigations in Romania to identify the key actors involved in illegal logging, and the primary companies purchasing illegally harvested Romanian timber. In the majority of cases of illegal logging that EIA encountered, EIA found that Schweighofer played a prominent role. Individually, these cases illustrate in detail the various mechanisms and devastating impacts of illegal logging across the country. Taken as a whole, they stand as testament to the impact of Schweighofer's policies of incentivizing illegal timber purchases while the company makes excuses about local corruption and "informal" Romanian business practices.

As detailed below, Schweighofer has consistently been implicated in obtaining land and timber illegally, over the course of the decade the company has been actively operating in Romania. Far from being a victim of the corruption common throughout the Romanian system, Schweighofer's corporate policies and practices have incentivized all forms of illegal timber acquisition, fueled

corruption, and stifled government reforms in order to maintain enormous profit margins.

Schweighofer claims that it has never knowingly received illegal timber, and that its internal company policies are strong enough to keep its mills free of illegal timber.²⁰⁴ The following case studies show that neither statement is true.

SECTION 3.1: BUYING ILLEGAL WOOD – SCHWEIGHOFER'S 1,000 SUPPLIERS PER YEAR

Romanian government tax records, obtained by EIA, show that Schweighofer purchased timber from over 1,000 different suppliers within Romania in 2014.²⁰⁵ With so many diverse timber sources in a country it acknowledges has a high risk of illegal logging, Schweighofer would have to take extreme measures to ensure that it is not the recipient of any of that illegally sourced timber. Instead, according to multiple sources including former and current company employees, Schweighofer requires only paper documentation for the timber it purchases.²⁰⁶ As the following case studies show,

Schweighofer not only receives illegal timber, but in many cases actively incentivizes suppliers to provide it.

CASE #1: BORȘA: Land claimed by community organization illegally restituted and source of unmarked logs bound for Schweighofer

The town of Borșa lies in the far north of Romania, below Maramureș Mountains National Park, adjacent to the Ukrainian border. A community association in Borșa with over 5,000 members claims rights to 17,000 hectares of forest land, confirmed as the property of their ancestors more than 200 years ago by the Austrian Habsburg Empress Maria Therese. Numerous national courts have confirmed the community's claim since 2004, and ordered the local municipality to honor the community's land rights.²⁰⁷ However, for the past ten years, this community has struggled to receive title to their land. Instead, the local Borșa municipal government in 2006 granted over 6,000 hectares of forest to a rival claimant, a group of five individuals including a close relative of the wealthiest person in Romania, a mining magnate named Frank Timiș.²⁰⁸

Members of the municipal council who approved this claim, in violation of local, regional, and national court decisions, included Romsilva employees.²⁰⁹ The town council has granted the remainder of the 17,000 hectares to many other local politicians and businessmen.²¹⁰ Over the past decade, as the forest community's case has inched its way through Romania's legal system, these groups have exploited the forest, clear-cutting vast hillsides of spruce.²¹¹ A 2008 study by the European Court of Human Rights found that damage due to clearcutting within these 17,000 hectares had already reached €62 million.²¹²

EIA investigators observed logging operations within the contested forest claim, including trucks loading timber. At

an exit point to the logging area, EIA observed piles full of unmarked logs, which is in clear violation of Romanian regulations requiring transport marks on all logs over 20 cm in diameter.²¹³ Investigators followed a log truck, previously observed loading timber inside the disputed forest, 40 km to a train depot in the small town of Săcel. A large sign at the entrance to the depot reading "Schweighofer" marked the entire log depot as belonging to the company. Investigators filmed the logs being unloaded from the truck, as well as the logs in the depot itself. Almost none of the logs contained any markings whatsoever, and were therefore expressly illegal, since the required markings on the logs are the only way to trace the legal origin of felled timber. Investigators

then filmed the unmarked logs being unloaded directly into the open-topped railcars of a waiting train. Two separate sources at the train station said on hidden camera that all the wood goes to Schweighofer's mill in Sebeș. The community members themselves confirm that all the wood, with very few exceptions, goes to Schweighofer.

CASE #2: SCHWEIGHOFER'S TOP SUPPLIERS **Under investigation for illegal activities: Logging in national parks, misuse of sustainable use permits, illegally restituted land, ties to corrupt officials, and tax evasion**

A recent report by the Romanian investigative journalists group, RISE Project, revealed that many of Schweighofer's

LOCATION OF CASES AND SCHWEIGHOFER FACTORIES



largest suppliers in 2013 and 2014 are linked to former Schweighofer directors, local politicians, or businessmen with long criminal records.²¹⁴ Documents obtained by RISE reporters detail how Romanian logging companies received loans from Schweighofer in order to maintain and expand their activities. The top three suppliers to Schweighofer are under investigation for illicit activity.²¹⁵

ROMSILVA

Schweighofer's single largest supplier is Romsilva, the State-owned enterprise charged with managing Romania's public forests.²¹⁶ As detailed above, Romsilva has long been criticized for permitting extensive and abusive logging in Romania's national parks, under the guise of "sustainable use" permits (see Section 1.3: Romsilva's Mismanagement of National Parks and State Forests). The director of Romsilva is currently under investigation by national anti-corruption prosecutors for creation of an organized criminal group, in one of Romania's largest cases of illegal restitution.²¹⁷

ALREDIA

Sorin Benjamin Docea, the owner of Alredia, which is the second largest supplier of timber to Schweighofer, also received loans and other forms of financing from the company to conduct and expand their logging operations.²¹⁸ Since Alredia had very few liquid assets, the company used Schweighofer loans to purchase machinery and timber at auctions. Docea explained, "Now we took an advance from them, a sort of loan, and we will reimburse it monthly. This is what they do with all of their partners, not only with us."²¹⁹ Alredia has won permits to exploit timber all around Romania, in 17 out of 41 counties, and sold Schweighofer an estimated 369,000 m³ of timber in 2013 and 2014.²²⁰

Alredia appeared in a recent tax evasion case in Alba County, home to Schweighofer's giant Sebeș sawmill.²²¹ Prosecutors arrested a man named Petru Cernat, who operated eight shell companies, whose sole purpose was to acquire and re-sell illegal timber for a quick profit.²²² Cernat's shell companies sold illegal timber to Alredia, a fact that Alredia's owner Docea acknowledged.²²³ However, Docea claimed that all

the timber came with paperwork, and he had "neither the right nor the obligation to check the origin of the timber or the source of his purchase."²²⁴ Cernat himself also supplied approximately 15,000 m³ of timber directly to Schweighofer in 2014.²²⁵

Separately, EIA's investigation found Alredia's name listed on two fake transportation documents (*aviz*), dated November 2014. Both documents were nearly identical, sharing the same serial number and stamp from the relevant authorities. However, the second version had been modified, registering a different volume of timber. An industry expert consulted by investigators found that both documents were in fact illegal, the real *aviz* having been used one month prior, delivering to a different company.²²⁶

FRASINUL

The owner of Schweighofer's third largest supplier, Frasinul, is named Traian Larionesi. Investigations by the national anti-corruption prosecutors found evidence that county-level police officials systematically protected Larionesi's illegal activities, instructing subordinates not to stop timber trucks belonging to Larionesi's transportation companies.²²⁷ In a separate case, anti-corruption prosecutors are investigating Larionesi for providing what they describe as "undue benefits" to the director of the county-level forest department for fixing several timber auctions in Larionesi's favor.²²⁸ Prosecutors in this case also note a relationship between Larionesi and Karl Schmid, Schweighofer's head of sourcing for Romania.²²⁹

CASE #3: RAID AT SCHWEIGHOFER'S RĂDĂUȚI SAWMILL Nearly 10,000 m³ of illegal timber identified

In 2014, Suceava county forest police (ITRSV) conducted a raid of Schweighofer's sawmill in Rădăuți, near Romania's northern border with Ukraine.²³⁰ The ITRSV team found 9,384 m³ of illegal timber in the mill, with an estimated value of over €450,000. The Romanian government confiscated this timber, and fined the company €21,000.²³¹ Violations found by the forest police included timber without documentation of legal origin, the receipt of timber with invalid transportation documents (*aviz*), and non-compliance with the reporting requirements of the SUMAL, the national electronic timber tracking system.²³²

Following the raid, the government allegedly rescinded permission to distribute and to use so-called special regime forms, meaning that Schweighofer was not allowed to sell the wood from their mills for a limited period of time.²³³

CASE #4: PRE-CONTRACTS WITH SUPPLIERS Schweighofer incentivizes illegal timber harvesting

Schweighofer incentivizes indiscriminate, and often illegal, sourcing by granting large advances, on the order of

hundreds of thousands of Euros, to suppliers, in exchange for contractually binding delivery of large volumes of timber. While loans like this are quite common in the agricultural sector globally, banks generally base the loan amounts on a percentage of the anticipated harvest.²³⁴ A number of court cases in Romania document that Schweighofer's contracts exceeded the authorized harvest limits of its suppliers. In order to pay off these loans, the suppliers instead provided Schweighofer with illegally sourced timber.

A contract obtained by anti-corruption police from 2004 documents an agreement in which Schweighofer paid an advance of €420,000 to George Deaconea, then head of Romsilva's Voineasa Forest District, and who owned a company called SC Soficarm SRL, on the condition that Soficarm deliver 22,000 m³ of timber to Schweighofer.²³⁵ As reported in 2009 court filings, Soficarm and its associates could not obtain legal quantities of this timber, and to meet their quota illegally logged 6,688 trees (5,222 m³) which they delivered to Schweighofer.²³⁶ In these filings, the prosecutors note that the defendant cut illegally "because he had to honor contracts with S.C. Holzindustrie Schweighofer SRL."²³⁷

Deaconea's key associate in this case was a Danish citizen named Dennis Rasmussen, owner of a Romanian company called Rodank Industries SRL.²³⁸ Under separate contracts from 2004 until 2008, Rodank and Deaconea's Soficarm accepted advances for provision of timber to Schweighofer.²³⁹ A 2010 indictment of Deaconea at the Court of Sibiu documents contracts with Schweighofer, illegal logging by Rodank, and delivery of illegal timber from other operators by Rodank and Soficarm, to Schweighofer's mill in Sebeș, totaling 4,594 m³ of logs.²⁴⁰ As of mid-2015, this case is still ongoing, the nominal reason given that a Romanian-Danish translator cannot be found for Mr. Rasmussen.²⁴¹ A separate forest police report from 2014 documents 26 separate shipments of illegal timber between 2005 and 2014 from Soficarm and its associated companies, with Schweighofer listed as the destination.²⁴²

Separately, in his role as a local forest official, Deaconea signed numerous logging permits with Schweighofer in 2004, granting permission to log on the forests under the official's care.²⁴³ The Schweighofer representative who signed these documents was Karl Schmid, who accepted offers of illegal timber from EIA investigators ten years later (see Section 2.2: Policy of Destruction Revealed in Undercover Investigations).

CASE #5: SCHWEIGHOFER TRAIN DEPOTS Majority of logs lack required transportation stamps

Investigators visited two additional train depots, similar to the Sacel depot near Borsă, where Schweighofer maintains its own private log yards with direct rail links to its mill at Sebeș.

**Court cases in Romania document
that Schweighofer's contracts exceeded
the authorized harvest limits of its suppliers.
In order to pay off loans, the suppliers instead
provided Schweighofer with illegally
sourced timber.**



Schweighofer's Leordina Depot

Ecostorm

Romanian forestry law states clearly that each individual log must be marked during transport to correspond with the relevant legal paperwork if the diameter of the log exceeds 20 cm at its smallest end.²⁴⁴ The accompanying transportation paperwork (*aviz*)²⁴⁵ can be checked by police to ensure that the dimensions and type of timber transported matches the entry in the centralized SUMAL database.²⁴⁶ Many sources indicated that this lack of stamps on logs during transportation is a very frequently violated regulation across the industry.²⁴⁷ However, lack of these stamps make it impossible for police to confirm the legal origin of a given shipment of timber during transport, facilitating the laundering of illegal timber.

At Schweighofer's depot at Nehoiașu, investigators observed large piles of logs, very few of which had any visible stamps or marks. At this point in the supply chain, the absence of stamps on the logs could be explained by further sectioning or other factors such as being knocked or scraped off; but minimal processing would most likely not account for around 95% of the logs lacking visible marks, as filmed by investigators. During the visit, two truck-loads of timber were filmed arriving at the depot lacking any transportation stamps. Within moments of arriving at Schweighofer's depot at Leordina, also with a train link direct to their mill, the team was threatened by a foreman wearing the Schweighofer

company logo who stated he would "break the camera" if they filmed inside the facility.

Romanian forestry workers reported to EIA that multiple transports are often made using one *aviz*, since each *aviz* is valid for between ten and 72 hours, depending on the distance travelled.²⁴⁸ Another loophole in the law allows companies 48 hours to sort out any irregularities.²⁴⁹ An ex-Schweighofer employee told investigators that there is an active trade in false documents in Romania, where shell companies sell fake papers to companies who need them.²⁵⁰

CASE #6: BUZĂU COUNTY **Illegal logging of unmarked logs bound for Schweighofer**

In late 2014, investigators filmed logging in forests near Varlaam, Buzău County. A logger stated that the wood was destined for Schweighofer. The company owner, living in a makeshift hut at the nearby rampa (the designated location where the logs are loaded onto trucks) confirmed that he sold all his wood to Schweighofer. He referred to the company as "the devil", and their activities "a disaster."²⁵¹ He complained that he felt "forced" to do business with them, claiming that the company has an effective monopoly.²⁵²

Investigators observed significant illegalities in the logging and timber transport in the area, including unmarked logs

being trucked away and trees being dragged through a river. The main road was closed due to a landslide attributed locally to erosion from logging, causing considerable inconvenience and expense to local people having to drive miles around to get to Brașov.

On returning to the area six months later, investigators found that only about 50% of stumps at the site had any discernible mark, as required to match felled logs to their place of origin. Because the painted stamps are designed to remain visible over several years,²⁵³ this is an indicator that logs bound for Schweighofer may have been cut illegally and laundered with legal wood. Several sources stated that this phenomenon is common in Romania.²⁵⁴

Within moments of arriving at Schweighofer's depot at Leordina, the team was threatened by a foreman wearing the Schweighofer company logo who stated he would "break the camera" if they filmed inside the facility.



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CASE #7: CORBU, HARGHITA COUNTY **Schweighofer acceptance of timber from clear cut and illegally restituted land tied to Corbu mayor**

In Corbu, Harghita County, investigators met with a local farmer who told them that the authorities failed to reconstitute a swathe of forest back to the Corbu Forest Association, a co-operative of locals who paid taxes on the land prior to 1945. The farmer said that he had inherited 155 hectares from his grandfather, only 2.5 ha of which had been returned despite his submission of documents, including a land registry excerpt, to the town hall.²⁵⁵

The farmer led investigators to his claimed forest land, where they observed old and new stumps without the required hammer stamps, as well as some marked with stamps.²⁵⁶ The loggers, filmed transporting timber out of the forest to await collection by truck, named Schweighofer as the recipient of the wood.²⁵⁷

Investigators returned to the same area one year later, and found it had been clear-cut, and that many of the remaining stumps lacked visible stamps. The mayor of Corbu, interviewed by investigators, said that the company contracted to exploit the land, SC Dana Group SRL (later confirmed in the registry obtained by investigators), has a contract to provide the timber to Schweighofer.²⁵⁸ Tax records obtained by EIA show that SC Dana Group SRL supplied over

4,500 cubic meters of timber to Schweighofer in 2014.²⁵⁹ However, when investigators asked the mayor about the restitution dispute involving the farmer, he stated that the claimants did not have sufficient evidence to make their case and that the claimants' "interest was to get the land and deforest it."²⁶⁰ Documents filmed at the local forestry office showed that the town hall had itself been granted ownership of the land, and, according the farmer "take all that is good and what is damaged is left behind to rot."²⁶¹

The harvest plan for the forest plot was obtained by investigators and called for a programme of progressive cutting, with young trees planted to regenerate the forest.²⁶² Forest experts interviewed by investigators stated that the area was in fact clear cut, and showed no evidence of new plantings or reforestation, a legal obligation according to Romanian forestry law.²⁶³ Additionally, investigators noted an unexplained volume discrepancy between the summary of the forest management plan²⁶⁴ and registry,²⁶⁵ which listed an allowed volume of 459 m³, and the APV (standing wood evaluation),²⁶⁶ where the allotted volume for extraction had inexplicably increased by 265 cubic meters, attributed by local officials as "a mistake by planners" who "didn't read the papers correctly."²⁶⁷

SECTION 3.2: STOLEN FORESTS – SCHWEIGHOFER AND ILLEGAL RESTITUTIONS

As noted in Section 1.2 above, the post-Communist process of restoring land rights to descendants of the original owners has been plagued by abuse. The following case studies, that all in some way involved agents of Schweighofer, illustrate these complexities and the widespread scope of the illegalities surrounding land rights in Romania — and by extension, the illegal nature of the timber sourced from these stolen forests.

Court documents show that Schweighofer, through its subsidiary Cascade Empire, was involved in a large number of illegal restitutions.²⁶⁸ In some cases the company purchased the forest land directly, and in others signed contracts to purchase the timber sourced from illegally restituted lands.²⁶⁹ A single agent was involved in many of these cases.²⁷⁰ In some of these, Cascade Empire was shown to have negotiated a price for purchasing the land and/or timber long before the courts had even granted the restitution title (see Case #8: The Three Mountains, p.21).²⁷¹

Representing just a handful of the total number of illegal restitution cases linked in some way to Schweighofer, the cases below show the variety of ways in which the company benefitted from illegal land deals, whether as direct owners

Between 2006 and 2009, Schweighofer purchased over 1,700 hectares of forest near the town of Voineasa...according to prosecutors from the DNA, the restitution of almost 1,000 hectares of this forest was illegal.

of the land or as pre-determined buyers of the timber from illegally restituted lands.

CASE #8: THE THREE MOUNTAINS **Schweighofer's FSC certified forests resulted from illegal restitution**

The Transylvanian Alps tower above Schweighofer's factory in Sebeş. Between 2006 and 2009, Schweighofer purchased over 1,700 hectares of forest near the town of Voineasa, less than 100 km south of their factory.²⁷² According to prosecutors from the DNA, the restitution of almost 1,000 hectares of this forest was illegal.²⁷³ Gheorghe Deaconeasa, a local forest official and businessman, was a key actor in this sale, as well as other restitution cases for land or timber which Schweighofer subsequently purchased (see Case #4: Pre-Contracts, p.18). In 2015, Deaconeasa was convicted of bribery, forging documents, and weapons charges and is currently serving a ten and a five year sentence.²⁷⁴

The illegal restitution of the area of 1,000 hectares, which covers three mountains called Puru, Galbenul and Petrimanul in Obarsia Lotrului, was completed in 2006.²⁷⁵ According to DNA prosecutors, in 2004 Deaconeasa and his business partner, Mircea Basarabă, used two separate schemes to claim 1,000 hectares of mountain forest on behalf of a number of individual descendants.²⁷⁶ For half of this area, Basarabă contacted a number of false descendants and offered them between 70% and 90% of the profits if they agreed to sign documents claiming this land as their own.²⁷⁷ For the other 500 hectares, Basarabă simply created forged documents.²⁷⁸

In contracts with the false descendants, Basarabă added a compulsory clause requiring the immediate sale of the property once the new owner received the title deed, to a buyer identified by Basarabă. The contracts stipulated very high penalties required to be paid to Basarabă if the new owners refused to sell within 30 days. Mircea Basarabă immediately became the owner of the whole forestland, by that penalty scheme.²⁷⁹ Before 1948 these lands were property of the Romanian State.²⁸⁰

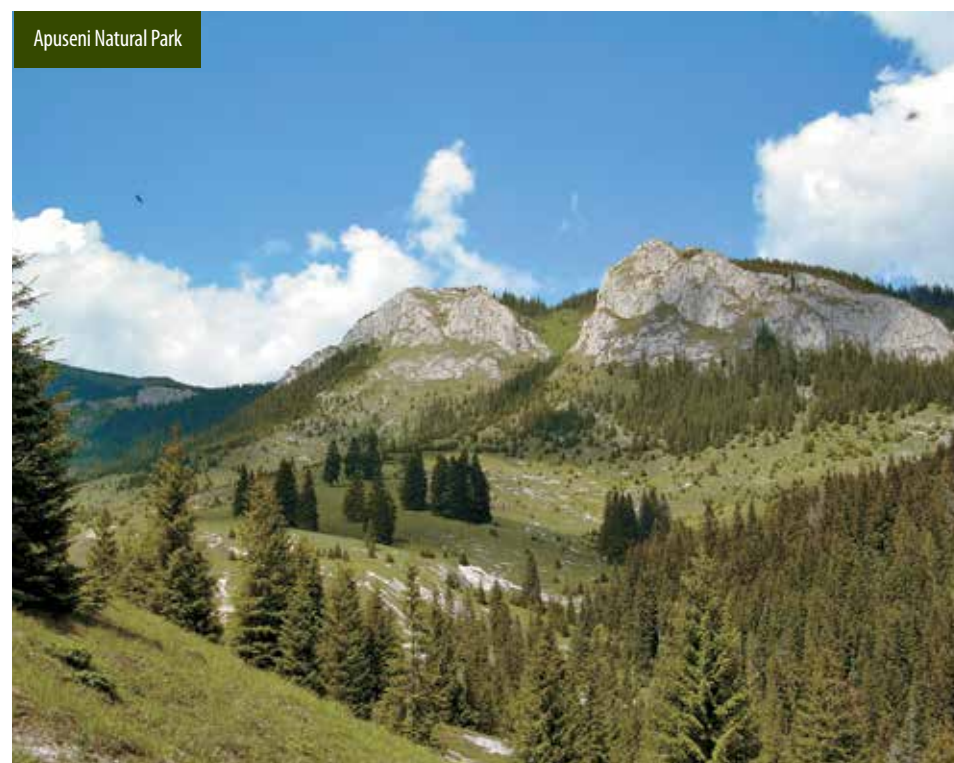
In 2006, once the courts had approved the restitution, Schweighofer bought the 1,000 hectares from the

businessmen for 1.5 million euros, one-tenth of the true value of the forest as estimated by DNA prosecutors.²⁸¹ Email communication obtained by prosecutors show that Schweighofer's Cascade Empire began negotiations to buy these forests in 2005, six months before the land was officially restituted.²⁸² Most of the 1,000 hectares bought by Schweighofer remain in its possession, and nearly all of it has obtained FSC certification, despite an FSC ban on timber from stolen land.²⁸³

In May 2015, Deaconeasa was sentenced to five years in prison for the illegal restitution of 500 hectares of forest using the names of descendants from a forest community in Vâlcea county,²⁸⁴ and ten years in prison in the case of forging documents for the remaining 500 hectares sold to Schweighofer.²⁸⁵ News reports indicate that the courts are currently exploring legal avenues for restoring this land to the rightful owner, the Romanian State.²⁸⁶

CASE #9: KENDEFFY **Schweighofer FSC forest taken from Retezat National Park in ongoing illegal restitution case**

Nearly ten thousand hectares of forest from Retezat National Park are now in the possession of the heirs of the Kendeffy Family, historically one of the wealthiest Hungarian families in Romania.²⁸⁷ The Romanian government has challenged this restitution as illegal in an ongoing court case since 2010. In this case, government prosecutors refer to legal documents showing that the Kendeffy family land had been legally expropriated in 1921, following a land reform process, and was therefore not eligible for restitution.²⁸⁸ Since that time, the State was the sole owner of the forest, and Retezat National Park was founded on this land in 1935.²⁸⁹ In addition, Romanian law does not permit the restitution of land to foreign citizens.²⁹⁰ The heirs of the Kendeffy family, claimants in this case, were born and live in Austria and



Apuseni Natural Park

Public Domain

APUSENI NATURAL PARK

The Court of Accounts report highlights illegal logging within Apuseni Natural Park as historical both in scale and in the lack of reaction of the responsible forest management authorities.³¹¹ Due to illegal logging, nearly all the harvestable timber in a single forest district within the park was lost between 2002 and 2011.³¹² In 2002, Romsilva forest engineers calculated a total timber stock of 257,000 m³ within the forest district, and authorized the harvesting of 20,000 m³ over the subsequent decade.³¹³ Instead, an assessment made in 2012 found that only around 35,000 m³ of timber remained. The auditors concluded that there was no reasonable explanation as to how Romsilva officials could have missed such an enormous ten-fold loss of 201,379 m³ of illegal timber.³¹⁴



Illegal Logging in Corbu

Ecostorm

Belgium.²⁹¹ In 2008, Schweighofer purchased 794 hectares of the restituted land, which now forms a part of their FSC-certified forest holdings,²⁹² contrary to FSC standards that land rights must be legally acquired.²⁹³

CASE #10: SITE OF SCHWEIGHOFER'S RĂDĂUȚI SAWMILL

Land under investigation for illegal restitution

In 2014, Romanian anti-corruption prosecutors opened a case against numerous individuals in the town of Rădăuți, in the Suceava County on the Ukrainian border.²⁹⁴ These individuals, including judges, town officials, police officers, lawyers, and prosecutors, are accused of corruption in orchestrating an illegal restitution of land on the outskirts of Rădăuți town, land that was immediately sold to Schweighofer, which has constructed a sawmill there.²⁹⁵

Prosecutors have charged a local businessman, Constantin-Gavril Babiuc, with 69 counts including bribery, blackmail, and fraud to obtain 42 hectares of land in 2005 which he then sold to Schweighofer.²⁹⁶ Court documents state that Babiuc was working on behalf of an Austrian company which had opened its first sawmill in Romania in Sebeș in 2003.²⁹⁷ Babiuc encountered difficulties in acquiring many parcels of the 42 hectares, due to numerous incomplete land restitution cases. Prosecutors state that Babiuc, under pressure from the Austrian investor, bribed a judge and other officials to forge legal documents to obtain this land.²⁹⁸ Documents state that Babiuc sold this land to the Austrian company both directly and through "S.C. (...) EMPIRE SRL", for €100,000.²⁹⁹

If the court decides the land was indeed illegally restituted, Schweighofer could lose this land and have to dismantle its mill.

SECTION 3.3: BUYING FROM NATIONAL PARKS

Schweighofer has long stated that it does not purchase timber harvested from national parks.³⁰⁰ However, EIA has learned that Schweighofer officials have knowingly received wood from national parks until at least the beginning of 2015.³⁰¹ Field visits, interviews with former and current Schweighofer employees, as well as tracking of log trucks confirm that Schweighofer has received significant amounts of timber from national park lands.³⁰² In addition, Schweighofer has purchased both land and timber obtained through illegal restitutions, and from areas that were originally national parks (see Case #9: Kendeffy, p.21; Case #11: Retezat, p.22; Case #12: Sâmbăta, p. 23).³⁰³

As noted above in Section 1.3, Romsilva is a State-owned company that manages Romania's public forests, including its national and natural parks. The company earns significant revenue by permitting extensive logging in these parks, estimated at around €15.5 million per year.³⁰⁴ Romsilva's primary mandate is commercial — to manage extraction of timber from Romania's state forests, and the company lacks a conservation focus.³⁰⁵ Indeed, a 2011 World Bank review of Romania's forest management recommended a "moratorium on political appointments at all levels within Romsilva."³⁰⁶

Park management has suffered as a result. A key problem facing Romania's national and natural parks is the structure of the internal zoning. In the majority of parks, less than half of the forest land is classified as strictly protected or integral protection zones,³⁰⁷ where logging is forbidden, except in special cases such as bark beetle infestation.³⁰⁸ In most cases, these restricted areas are scattered in small plots throughout the parks. The

gaps between these logging free areas consist of so-called "sustainable conservation" and "sustainable development" areas where commercial logging is permitted.³⁰⁹ In many cases, the most strictly protected areas lie on the park boundaries with absolutely no buffer zone, making them highly vulnerable to further human and natural threats.³¹⁰

Romsilva's commercial mandate combined with poor zoning regulations mean that hundreds of thousands of cubic meters of timber are cut annually in Romania's national and natural parks (see Section 1.3: Romsilva's Mismanagement of National Parks and State Forests). Much of this timber is extracted illegally, in violation of harvesting regulations (see cases below). Responsibility for this illegal logging lies not only with the logging companies that violate the regulations, but also with Romsilva and companies which stimulate this cutting with their increasing demand for timber.

CASE #11: RETEZAT NATIONAL PARK **Illegal logging in Europe's last remaining Intact Forest Landscape tracked to Schweighofer**

The largest remaining Intact Forest Landscape (IFL) in Europe outside of Scandinavia is in the Retezat Mountains, comprising 97,000 hectares in total.³¹⁵ At its core lie the national parks of Retezat and Domogled. Since the fall of Communism in 1989, both illegal and unsustainable authorized logging have decimated the park's standing forest area, turning the park into a logging concession (see PHOTO: Clear cuts in Domogled).³¹⁶

In 2011, following protests from biologists and media exposures of excessive illegal logging in the Rau Ses area of Retezat National Park, the Romanian Academy of Sciences conducted an in-depth study on logging practices in this area.³¹⁷ Their report detailed illegal logging of healthy trees under the guise of sanitary logging permits, and documented that Romsilva administrators and forest managers had intentionally left rotten logs in the forest to spread bark beetle infestations, in order to obtain additional sanitary logging permits.³¹⁸ Specifically, the report authors emphasize that forest engineers had marked the most valuable trees,



A Holzindustrie Schweighofer guard confronts Agent Green staff at the company's gates

Agent Green



Agent Green

without considering the scope of conservation.³¹⁹ Media investigations at the time found that this timber was sent to Schweighofer and other companies.³²⁰

Following the Academy's report, the Ministry of the Environment, Water and Forests halted all logging in the Rau Ses area, and drafted a new management plan for the entire park, which upgraded the status of Rau Ses to an integral protection zone.³²¹ However, for the next two years, the new Minister of the Environment refused to sign this management plan into effect, and just days before leaving her position, instead authorized Romsilva to again harvest in Rau Ses.³²² In 2014, three logging companies extracted over 10,000 m³ of timber from the national park, again under the guise of sanitary clearing.³²³ Romanian tax records show that Schweighofer bought over €500,000 worth of timber from these three companies in 2014.³²⁴

Site visits to Rau Ses within Retezat National Park by a Romanian NGO, Agent Green, in November 2014 found a logging company cutting timber illegally. Agent Green staff followed one logging truck to the gates of Schweighofer's mill in Sebeș. They later accessed a new system in which citizens can inquire into the legality of any logging truck in Romania, by asking if the truck's load was registered in the SUMAL timber tracking system. They learned that the truck load "appeared as illegal" in the SUMAL system; however,

at the company's entrance gate, the Agent Green staff was beaten and pepper sprayed by Schweighofer guards as he attempted to film the illegal truck load entering the mill. A few weeks later, an investigation by the Ministry of the Environment, Water and Forests confirmed that the logging company had in fact committed numerous harvesting violations at the site.³²⁵

CASE #12: SÂMBĂȚA VALLEY **Abuse of sanitary logging permits within a protected area by a supplier to Schweighofer**

In 2014, investigators filmed clear-cuts within a Natura 2000 status forest in the picturesque Sâmbăta Valley in the Fagaras Mountains, including an area where an aerial cable car had been constructed to transport timber from higher elevations along the mountain, the site of a reported bark beetle infestation.³²⁶ According to Romanian forestry regulations, such access routes through healthy trees should not exceed six meters in diameter.³²⁷ However, in this case the clear-cut path reached up to 25 meters in width, all the excess constituting illegal logging.

At the local forest office soon after, investigators filmed paperwork showing that the logging permit had expired three months prior.³²⁸ The forest office also confirmed that the cable car route cut through the protected area was illegal due

to its excessive width.³²⁹ The cable car passed through Parcel 44A, which the management plan confirms to be Category 1.2.A protected status; in other words, forest on slopes steeper than 30 degrees and prone to erosion.³³⁰

Satellite footage of the area shows a broad clear-cut at the top of the ridge between 2012 and 2014. According to a forestry expert consulted by investigators, the plan for the upper area is listed as "T Igiena" (sanitary cutting), which means that only a small proportion of trees can be cut unless the age of the trees exceeds 110 years — the allotted age for harvest.³³¹ The management plan for this forest plot lists the trees as 90 years old, suggesting a premature and illegal clear-cut.³³² Although bark beetle infestation would account for a certain degree of early cutting, it is normal practice to cut just the infected trees, so justification for a full clear-cut would be unlikely according to the expert.³³³

The local forest bureau officials acknowledged that it was common for companies to violate the conditions for sanitary cutting, and noted that the company responsible for this cutting, Mesar SRL, had previously been fined for illegal logging in another area.³³⁴ In conversations, officials from Mesar SRL named Schweighofer as the recipient of the timber.³³⁵ Tax records show that Mesar SRL supplied around 500 cubic meters of timber to Schweighofer in 2014.³³

SCHWEIGHOFER'S MAJOR CUSTOMERS ACROSS EUROPE

United Kingdom €0.2 M

GA Imports Ltd	€140,000
Stairways Midlands LTD	€20,000

Spain €0.2 M

Manufacturas Nicolas, S.L.	€111,839
Amargos SLU	€72,639
Madergold S.L.	€21,015

Austria €58.6 M

Genol GmbH & Co KG	€7,900,000
Drauholz GmbH	€7,400,000
Papierholz Austria GmbH	€6,800,000
Holzindustrie Schweighofer	€6,300,000
Essmeister GmbH & Co KG	€4,800,000

France €3.7 M

Active Trading S.A.	€2,000,000
Gascogne Bois	€500,000
PG Distribution SARL	€400,000

Germany €2.5 M

Classen Holz Kontor GmbH	€700,000
Klenk Holz AG	€400,000
Bauhaus GmbH & Co KG	€400,000

Italy €4.1 M

Pircher Oberland SpA	€2,500,000
Genol GmbH & Co KG	€1,300,000
Ecogest SRL	€100,000



Country totals

Austria	€58,630,000
Slovenia	€9,980,000
Bulgaria	€5,100,000
Czech Republic	€4,580,000
Italy	€4,090,000
France	€3,670,000
Hungary	€2,960,000
Greece	€2,810,000
Germany	€2,490,000
Slovakia	€1,760,000
Switzerland	€570,000
Poland	€470,000
Sweden	€460,000
Portugal	€360,000
Netherlands	€330,000
Croatia	€330,000
Spain	€230,000
Belgium	€180,000
United Kingdom	€160,000
Cyprus	€20,000
Estonia	€18,000
Luxemburg	€2,000

no data

Slovenia	€10.0 M
Drauholz GmbH	€4,400,000
Genol GmbH & Co KG	€3,000,000
Habersatter & Wieser Holzhandel OHG	€1,400,000

Czech Republic	€4.6 M
Klaus Timber PLC	€1,400,000
Pilous spol s.r.o.	€1,100,000
Demos Trade	€600,000

Bulgaria	€5.1 M
MOMA LTD	€1,400,000
Bulles Group LTD	€1,100,000
Ecotrader Bulgaria LTD	€1,000,000

CYPRUS



PART 4. SCHWEIGHOFER'S EUROPEAN CUSTOMERS

Public Domain

SECTION 4.1: SCHWEIGHOFER'S EUROPEAN EXPORTS

Corporate tax records obtained by EIA indicate that, in 2014, the majority of Schweighofer sales to Europe, over 60%, likely consisted of biomass — pellets, briquettes, and woodchips.³³⁷

The table to the right shows Schweighofer's major buyers.

Schweighofer's leading buyers in Europe are biomass companies, such as the Austrian firms Genol and Drauholz, which are leading wood pellet providers in Austria, Italy, the Czech Republic and

Slovenia.³³⁸ Schweighofer also markets its own pellets and briquettes across Europe, under its own name or its brand "Golden Pellets."³³⁹ As evidenced in the above figure, Schweighofer's Major Customers Across Europe, Schweighofer's products can be found in nearly every country in the European Union.

Schweighofer operates five large factories across Romania, including three sawmills and two manufacturing centers (see GRAPHIC: Schweighofer's Operations in Romania, p.12).³⁴⁰ The company produces semi-finished products including laminated

panels, edge-glued lumber, and blockboard. Scraps from this production are ground into wood pellets, briquettes, and wood chips for export mainly to Europe, sold to the fiberboard factories of Kronospan and Egger, two other Austrian manufacturers in Romania, or burnt in Schweighofer's own furnaces for energy production, some of which is sold to the Romanian national electricity grid.³⁴¹

Schweighofer's sales internally within Romania account for a significant proportion of total revenues — these sales mainly

KINGFISHER'S ROMANIAN LINKS

Bricostore, a chain of DIY-stores serving the Romanian market, was a significant buyer from Holzindustrie Schweighofer in Romania during 2014.³⁴⁶ Bricostore Romania was the 20th biggest buyer across the EU and the 12th biggest buyer within Romania, itself, purchasing at least EUR 2.4 million in 2014.³⁴⁷ Major UK company, Kingfisher (KGF:LSE), is the sole owner of the 15-store Bricostore chain in Romania, which it acquired from a French company on May 31, 2013 for GBP 63 million.³⁴⁸ Kingfisher is in the process of incorporating Bricostore into its Brico Dépôt brand, active in France, Spain, and Portugal, which is "aimed at trade professionals and highly proficient retail customers."³⁴⁹ According to the company's website, Kingfisher holds a 5% market share in the home improvement market across Europe.³⁵⁰

Company executives at the highest levels were engaged with the development of Kingfisher's Romania operations. Kingfisher appointed company veteran, Philippe Tible, as CEO for French Brico Dépôt and Castorama Brands in 2008,³⁵¹ and he later oversaw the Brico Dépôt stores in Romania and other countries.³⁵² During the period from 2012 and 2014, while he was overseeing the Brico Dépôt and Castorama Brands, Mr. Tible also served on the company's board.³⁵³ With Kingfisher for 11 years overall, Mr. Tible earned a salary of GBP 509,300 in 2013/2014, and received a bonus of GBP 297,600, an increase of 9%

over the previous year (more than any other director), just as the company was expanding its operations in Romania.³⁵⁴ Upon announcement of his departure from Kingfisher in the company's Annual Report for 2014/2015, the company credited Mr. Tible for putting in place a "first class management team" for the company, including in Eastern Europe.³⁵⁵ Other high-level company executives for the Brico Dépôt brand include Alain Souillard, CEO of Brico Dépôt Brand, International, and Marc Ténart, Finance Director for both the Castorama and Brico Dépôt Brands.³⁵⁶

According to company documents for Kingfisher's fiscal year 2014/2015, the most recent overseas board meeting in Lille, France included a review of the Brico Dépôt brand in which the board "considered the operations of the Brico Dépôt businesses in Portugal, Romania and Spain,"³⁵⁷ and ultimately determined that the company should "conduct in-depth reviews of two of the Group's new markets, in Romania and Germany."³⁵⁸

Kingfisher's own process for expanding into new markets and eliminating high-risk timber sources from their supply chain is described in detail throughout company documents, which describe the company's "heritage as a leader in sustainability" in combination with its "international scale and sourcing capability" as part of the company's "unique contribution" in its industry.³⁵⁹ Kingfisher openly describes

its process for setting sustainability targets, including annual reviews of each of its "Operating Companies" or subsidiaries, with monthly reports on progress toward those targets.³⁶⁰ Indeed, in fiscal year 2013/2014, the company received presentations on operations and control processes from senior management of its subsidiary in Romania: Bricostore Romania which operates 15 Brico Dépôt stores.³⁶¹ Kingfisher publishes an annual percentage of timber (by volume) used in their products which it declares as responsibly sourced: 87% in 2013/2014, and 89% in 2012/2013.³⁶² Despite the existence of company policies like the "Net Positive" program to ensure sustainability, the Kingfisher group, via Bricostore in Romania, has nonetheless sourced large volumes of wood products from Schweighofer's Romanian operations,³⁶³ a company that freely admits³⁶⁴ that illegality and corruption pervade the country's entire forest sector and whose own sourcing practices incentivize illegality.³⁶⁵

Kingfisher also held a 21% stake in Hornbach, a German DIY-store for home improvement and craft, until March 2014.³⁶⁶ Schweighofer companies supplied products to Hornbach during 2014, when Hornbach purchased at least EUR 3.3 million worth of goods and services from Schweighofer — making Hornbach Schweighofer's 12th largest buyer in Europe last year.³⁶⁷ During 2014, Kingfisher's sold its stake in Hornbach for "approximately [GBP] 195 million."³⁶⁸

Schweighofer Romania's 2014 sales to top 25 EU customers

	1	Holzindustrie Schweighofer	€20.7 M	    	
	2	EGGER Romania SRL	€12.6 M		Flooring, furniture, and building products manufacturer with headquarters in Austria.
	3	Genol GmbH & Co KG	€12.1 M	  	Austrian company specializing in fuel products for energy, including wood pellets.
	4	Drauholz GmbH	€12 M	  	Wood pellets distributor, based in Austria.
	5	Enel Energie SA	€9.9 M		Energy services provider in Romania, partially owned by the Italian and Romanian governments.
	6	Kronospan Romania SRL	€8.1 M		Leading wood-based panels manufacturer and distributor, founded in Austria, with more than 40 manufacturing sites.
	7	Papierholz Austria GmbH	€6.8 M		Paper and packaging manufacturer, based in Austria.
	8	Bioenergy Suceava SRL	€6.3 M		Energy company, based in Suceava, Romania.
	9	€4.8 M Essmeister GesmbH & Co KG			Wood pellets provider, based in Austria.
	10	€4.6 M Dedeman SRL			Romanian DIY store for craft and construction.
	11	€3.9 M Tinmar-Ind SA			Electricity provider, based in Bucharest, Romania.
	12	€3.9 M Hornbach Baumarkt AG		 	German DIY-store chain for home improvement and craft.
	13	€3.3 M Habersatter & Wieser Holzhandel OHG		 	Wood pellets and construction products provider based in Austria.
	14	€3.3 M Spar Austria			Supermarket retailer based in Austria.
	15	€3.2 M Kastamonu Romania SA			Romanian subsidiary of Turkish wood industry company, Kastamonu Entegre, which produces sawnwood and plywood.
	16	€3 M Bio Electrica Transilvania SRL (owned by Schweighofer Group)			Power plant operator owned by Schweighofer Group in Radauti, Romania.
	17	€2.8 M KLH Massivholz GmbH			Cross-laminated timber manufacturer, based in Austria, forming part of the Johann Offner Group.
	18	€2.8 M Mobilaiud SRL			Garden furniture manufacturer, based in Alba County, Romania.
	19	€2.5 M Pircher Oberland SpA			Italian DIY-store chain for home improvement and craft.
	20	€2.5 M Bricostore Romania SA			Romanian subsidiary of UK's Kingfisher, currently forming part of the group's Brico Depot DIY store chain.
	21	€2.4 M HS Holzexport Schuster GmbH			Wood pellets and sawn wood manufacturer, based in Austria.
	22	€2.4 M JAF Group / Holver (RO)		   	Wood trader, retailer, and manufacturer, founded in Austria.
	23	€2.4 M BauMax		   	Austrian DIY chain providing home improvement products.
	24	€2.3 M Sea Star Company SRL			Timber trading company based in Romania.
	25	€2 M Active Trading S.A.			French wood trader with presence in Holland, Belgium, France, and Spain, and manufacturing facilities in China and Brazil.

Romanian tax records, 2014



A truck advertising Holzindustrie Schweighofer's block board products.

Agent Green

consist of scrap wood sold to Kronospan and Egger, pellets and other products for DIY stores in Romania, and electricity sold to the grid.³⁴² However, many of its buyers within Romania are Western European companies, including DIY giants Hornbach (Germany), Baumax (Austria/Germany), and Bricostore (owned by UK-based Kingfisher).³⁴³

Outside of the EU, Schweighofer's primary exports in 2014 consist almost entirely of pine and spruce sawn boards (89% by weight), followed by laminated structural timber (11%), and less than 1% of other products.³⁴⁴ These figures show clearly the extent to which Schweighofer operates to transform Romania's forests into semi-finished products. Former Environment Minister, Doina Pana, estimates that Romania's timber sector has lost 50,000 jobs in small and medium-sized companies since Schweighofer arrived in Romania.³⁴⁵

SECTION 4.2: EUROPEAN UNION TIMBER REGULATION (EUTR)

In 2013, a new law came into effect across the EU, with the purpose of combatting the worldwide problem of illegal logging and associated trade. The EU Timber Regulation (EUTR) requires all timber and wood products placed on the European market to be legally sourced and traded, in compliance with all relevant laws and regulations throughout the supply chain. Every EU member state has enforcement authority against companies that violate this law and trade in illegally sourced timber.³⁸⁵

Under the EUTR, most of the burden falls on the "operator", a company or individual that is the first to place the illegal timber or wood product on the EU market. For imports, the first placer would likely be the buyer who is the first legal recipient of the product. For wood cut within the EU, the first placer would presumably be the logging company that actually harvests

the timber. Any companies further down the supply chain are considered "traders", and have certain more limited obligations for ensuring the legality of their products.³⁸⁶

Operators (first placers) are prohibited from placing illegally sourced timber on the EU market and are further required to perform "due diligence", following their supply chains to ensure that the wood products they purchase are sourced and traded legally.³⁸⁷ Traders have the responsibility to "refrain from measures which could jeopardize the attainment of the objective of this Regulation,"³⁸⁸ and are obligated to retain records of all wood products purchases for five years.³⁸⁹ If illegal timber is found to have entered a trader's possession, this timber or any finished products made from it can be subject to forfeiture, depending on the member state's implementing legislation.³⁹⁰

In cases where Schweighofer's subsidiaries cut timber themselves, or in the case of imports from Belarus and Ukraine — around 800,000 m³ in 2014³⁹¹ — Schweighofer would presumably be considered the operator (first placer), with full responsibility for ensuring legal sourcing.³⁹² For the more than 98% of Romanian timber that Schweighofer buys from other suppliers, the company may be considered a trader.³⁹³

Given that illegal timber has been found multiple times in Schweighofer's mills, the Romanian government has the authority under the EUTR and national legislation to seize both this timber and any products made from it.³⁹⁴ In addition, the Romanian government has the right to request full sales and purchasing information from any potential suppliers of timber to Schweighofer.³⁹⁵ Likewise, other EU member states have the authority to request information about the purchases and sales of any Schweighofer products bought by other companies (see GRAPHIC: Schweighofer Romania's 2014 sales to top 25 EU customers, p.27).³⁹⁶ According to each country's implementing

legislation, these companies could face fines for noncompliance of these reporting requirements.³⁹⁷

Under the EUTR, certain member states, according to their implementing legislation, have the right to seize any Schweighofer products that are contaminated with illegal timber, to ensure that these products are removed from the market and "used or disposed of for public interest purposes."³⁹⁸ In practice, EUTR implementing regulations are weak with regards to traders, and most if not all governments currently lack this seizure authority.³⁹⁹

The bulk of the responsibility under the EUTR lies with operators (first placers), which are responsible for due diligence to avoid illegal timber purchases, and which face severe penalties including fines and imprisonment for violations.⁴⁰⁰ As noted above, Schweighofer's CEO considers that, since his company is not a "first placer" for Romanian timber, the European law does not apply to him.⁴⁰¹ Although Gerald Schweighofer acknowledges the high-risk nature of the Romanian forest sector, his company repeatedly insists that its requirement of documentation from suppliers exonerates them from any further legal responsibility, despite the CEO's own admission of fake documents in Romania.⁴⁰²

With the case of Schweighofer in Romania, the EUTR faces a critical test, to prove whether it can serve its primary purpose of preventing the placing of illegal timber on European markets — even when such timber originates within the EU. Failure to act in such an extreme case of blatant purchasing and incentivizing of illegal timber would highlight a critical loophole in the EUTR's ability to prevent illegal logging in its own backyard.

SECTION 4.3: VOLUNTARY CERTIFICATION: NO GUARANTEE FOR LEGALITY

Schweighofer's chief defense against the evidence of their illegal activities has been the fact that the company obtained certification from the Programme for Endorsement of Forest Certification (PEFC) and the Forest Stewardship Council (FSC).⁴⁰³ These claims misrepresent the substance of these certifications. Chain of Custody (CoC) certification is meant to ensure that timber traders and manufacturers that purchase wood from certified sustainably managed forests have the procedures in place to

Failure to act in such an extreme case of blatant purchasing and incentivizing of illegal timber would highlight a critical loophole in the EUTR's ability to prevent illegal logging in its own backyard.

BIOMASS AND WOOD PELLETS IN THE EUROPEAN MARKET

The European Commission expects biomass to be a key contributor to the EU's 2020 renewable energy target and anticipates the consumption of biomass in the EU to rise by 41% between 2012 and 2020, from 99 million tons of oil equivalent (Mtoe) to 139.5 Mtoe.³⁶⁹ European Union policy defines biomass as, "the biodegradable fraction of products, waste and residues from biological origin from agriculture, forestry and related industries, including fisheries and aquaculture, as well as the biodegradable fraction of industrial and household waste."³⁷⁰

Most of the biomass used for heating and electricity is wood-based, three-quarters of which is directly sourced from the forest.³⁷¹ Sources may include forest wood (stem, residues, etc.) or non-forest wood (industrial, landscape, waste), which may be chipped or pelletized.³⁷²

Subsidies for bioenergy drive a steady increase of EU demand for wood, which is expected to exceed domestic supplies before 2020.³⁷³ Compared to 2006, EU member states foresee an increase in domestic wood mobilization of 95 million cubic meters in 2020. Imported wood pellets and chips are expected to provide 15% of bioenergy

supply by the same year.³⁷⁴ Today, the UK is already the world's largest wood pellet consumer (5 Mtoe in 2014), followed by Italy, Sweden, Denmark, and Germany.³⁷⁵

Increased demand for woody biomass may lead to further pressure on European forests as well as forests globally. The European Environmental Agency warns in its State of nature in the EU: Results from reporting under the nature directives 2007–2012 (2015) report that intensified harvesting to meet the demand for biomass puts pressure on forest management.³⁷⁶ Yet, EU member states are not bound by any sustainability requirements specific to the sourcing and use of biomass in electricity, heating, and cooling.³⁷⁷

The EU is not only the world's largest wood pellet consumer, making up 75% of world consumption, but also the world's largest producer, making up 50% of world production.³⁷⁸ Within the European Union, Austria is Europe's fourth largest wood pellet producer (after Germany, Sweden, and Latvia).³⁷⁹ Many of the EU's wood pellet producers are members of the European Pellet Council (EPC), an umbrella organization representing

the interests of the European wood pellet sector.³⁸⁰ The industry has created its own voluntary pellet quality certification, called "ENplus", which is intended to increase burning quality standards and decrease carbon emission levels.³⁸¹ However, the only sourcing requirement for ENplus-certified producers is the documentation of the origin and the share of wood materials certified by the FSC, PEFC, or other forest management systems.³⁸² The ENplus label is carried by Schweighofer Romania and can be seen on Schweighofer's pellet bags.³⁸³ While the ENplus certification is intended to increase the standards of energy efficiency, it does not take into account other climate damaging effects of wood pellet use—such as deforestation and the resulting carbon emissions caused by the harvest of timber for wood pellets—in any meaningful way.³⁸⁴

As is shown in this report, increasing demand for biomass is directly associated with deforestation in Europe and is a key driver of illegal logging in Romanian forests.

keep this timber separated from any non-certified timber. Under FSC's CoC certification, participant companies may claim FSC certification for their products only if the raw material actually comes from FSC FM (forest management) certified forests.⁴⁰⁴ PEFC instead claims that its CoC certification system ensures the legality of all a participant company's timber purchases, regardless of whether the wood comes from certified sustainably managed forests, even though its system relies solely on documents provided from suppliers.⁴⁰⁵ In addition, Schweighofer's numerous purchases of illegal timber, including timber from stolen forest land, violate FSC's "principle of association," which forbids FSC certificate holders from sourcing illegal timber, and invalidate Schweighofer's claims that its timber is legal because it has FSC certification.⁴⁰⁶

PEFC: Weak standards and sloppy audits

Schweighofer obtained a PEFC Chain of Custody (CoC) certificate for their operations in Austria and Romania in May 2014.⁴⁰⁷ According to Schweighofer's website, "This system guarantees that there are no logs from any illegal cuttings being processed and brought to the market."⁴⁰⁸

PEFC's CoC requirements provide no guarantee that wood comes from legal, let alone sustainable, sources. The standard does not completely exclude illegally logged timber, but rather, it only requires companies to "minimize the risk."⁴⁰⁹ PEFC's CoC standard contains a due diligence system (DDS), which "is based on information provided by the supplier."⁴¹⁰ The information required by the supplier to fulfill PEFC due diligence includes basic data

such as identification of the material, name of species and country of harvest, and "where applicable," sub-national region and/or concession of harvest.⁴¹¹

According to the PEFC standard, organizations also have to conduct risk assessments to determine the likelihood of timber coming from controversial (including illegal) sources. Onsite checks on the supplier side can be required if the timber is classified as coming from a high-risk area.⁴¹² One such indicator of high risk is a Corruption Perception Index (CPI) below 50 and countries or regions known for low level of governance and law enforcement.⁴¹³ Both Romania and Ukraine fall into this category.⁴¹⁴

The risk may however be deemed "negligible" if the supplier provides "documents or other reliable information indicating compliance," but the documents are not further specified.⁴¹⁵ The PEFC standard further states that illegal or reasonably suspected illegal wood "shall not . . . be placed on the market unless . . . the timber supplied [is] classified as presenting 'negligible risk' through 'appropriate documented evidence' (emphasis added).⁴¹⁶ In other words, trading in illegal wood is accepted under the PEFC label as long as the supplier provides some sort of relevant paperwork.⁴¹⁷

In April 2015, EIA released undercover video footage showing high-level managers in Schweighofer's Sebeș sawmill accepting offers of illegally sourced timber (see Section 2.2: Policy of Destruction Revealed in Undercover Investigations). Following this report, Schweighofer commissioned a 'special audit' by PEFC certifying organization Holzforschung Austria, which included site



Schweighofer pellets sold at OBI DIY store in Austria

EIA

visits in Austria and Romania. The audit found no violations and confirmed the PEFC certificate.⁴¹⁸ On the company's website, CEO Gerald Schweighofer declared, "The audit completed now once again verifies that our company meets the international standards. The allegations of an environmental protection organization have proved to be unfounded and been entirely disproved."⁴¹⁹

At the same time as Holzforschung Austria auditors found no violations, auditors from the Romanian Ministry of the Environment, Water and Forests (MMAF) conducted their own investigation. Their report, handed to prosecutors in July 2015, found that Schweighofer's Sebeș mill alone had processed over 160,000 m³ of illegal timber in the period checked by

PEFC's CoC requirements provide no guarantee that wood comes from legal, let alone sustainable, sources. The standard does not completely exclude illegally logged timber, but rather, it only requires companies to "minimize the risk."

investigators.⁴²⁰ Following news of the MMAP report, PEFC launched a complaint and requested a second audit from certifier Holzforchung Austria.⁴²¹ Once again, the certifier found no evidence of non-compliance with the PEFC standard and PEFC closed the complaint in October 2015.⁴²²

In order to receive a PEFC stamp of approval, Schweighofer could have simply classified its wood under the category of "negligible risk" — no checks at the source required, no further questions asked beyond the receipt of paperwork from the illegal logger. This would perhaps explain the fact that the certifier found no incidence of non-compliance at Schweighofer. EIA has asked the certifier Holzforchung Austria for the reports of this audit, and for a list of the Schweighofer suppliers in Romania and Ukraine it has inspected. To date, the certifier has refused this request, on grounds of confidentiality. PEFC confirmed to EIA that certification reports are confidential.

So-called "independent" auditors sometimes have close ties with the companies they are certifying, which can imply serious conflicts of interest. Georg Erlacher, who started his career at Schweighofer in the early 1990s and is today a high-level manager at the company, was also a member of the board of certifiers that certified Holzforchung Austria for PEFC.⁴²³ He only stepped down from his position at Holzforchung in the spring of 2014, around the same time Schweighofer received their certification.⁴²⁴ Erlacher and the Managing Director of Holzforchung Austria are on the committee selecting the recipients of the Schweighofer Prize (see SIDEBAR: Schweighofer Financial Structure, p.13).⁴²⁵

FSC: Greenwashing illegal timber

In June 2014, Schweighofer proudly announced that, "All forests managed by Ocol Silvic Cascade Empire in Romania are now FSC certified."⁴²⁶ On its website and in press releases, the company commonly uses its FSC certification along with PEFC as "proof" that it only processes legal timber.⁴²⁷ The company fails to make a clear distinction — Schweighofer's FSC CoC certification only applies to timber sourced from FSC FM (forest management) certified forests, either its own or from other suppliers.⁴²⁸ Company statements implying that FSC certification somehow applies to all of its timber purchases are false and grossly misleading.

The forest management unit of Cascade Empire, Ocol Silvic Cascade Empire SRL, (Schweighofer's fully-owned Romanian entity), owns and manages 13,077 hectares of forest land throughout the country, all of which is FSC FM certified.⁴²⁹ However, tax records confirm the vast majority of timber sourced by the company, around 98%, does not come from its own FSC managed forests, but from over 1,000 different suppliers, many of which have been linked to illegal logging (see Case #2: Schweighofer's Top Suppliers, p.17).⁴³⁰ FSC records show that 59,152 m³ were harvested on Schweighofer's FSC FM forests in 2013, and that 17,700 m³ was sold locally as sawn logs and firewood.⁴³¹ Even if all of the remaining 41,452 m³ were sold to Schweighofer's sawmills, this would make up less than 2% of the over two million m³ that the company purchased from Romania in 2013. In effect, Schweighofer is using 2% of its supply to "greenwash" the remaining 98%.

FSC's Policy of Association prohibits the organization to enter into agreements with companies who are involved in illegal activities.⁴³² The policy states that, "FSC will only allow its association with organizations that are not directly or indirectly involved" in unacceptable activities, such as "illegal logging or the trade in illegal wood or forest products."⁴³³ Given Schweighofer's extensive purchasing of illegal timber, as demonstrated in the

case studies above, and proven once again in the recent MMAP inspection that found over 160,000 m³ of illegal timber in Schweighofer's Sebeş facility, FSC must immediately suspend Schweighofer and revoke its certification.

CoC Certification: Not a substitute for due diligence

As the Schweighofer case shows, voluntary certification, while a potentially useful tool to improve company practices, cannot replace appropriate due diligence, forest governance, and strong law enforcement. On its website, the PEFC invites companies to "Meet EUTR Requirements through PEFC Chain of Custody Certification,"⁴³⁴ claiming that "The PEFC Chain of Custody standard is fully aligned with EUTR requirements."⁴³⁵ As this investigation shows, such claims are misleading and can result in dangerous loopholes with the potential to cover up vast flows of illegal timber.

Laws such as the EUTR, the Lacey Act in the United States or the Illegal Logging Prohibition Act in Australia, if properly implemented, are crucial tools to reduce illegal logging and need to be replicated in consumer countries around the world. However, such legislation needs to be fact-based and should not rely on paper-based private, voluntary certification to replace proper due diligence.

This certificate confirms that the procedure for the production and/or the trade of

**Roundwood – Sawnwood – Planed and Profiled Goods –
Pulp – Glued laminated products – Wood fuels –
Sawmill by-products**

produced and/or traded by
Holzindustrie Schweighofer GmbH

AT-1040 Wien, Favoritenstraße 7/2

at the sites listed in the current addendum to this certificate has undergone an initial inspection, is
subject to continuous inspection and complies with the requirements of the rules and standards



Chain of Custody
PEFC ST 2002:2013 Chain of Custody of Forest Based Products - Requirements
PEFC ST 2002:2013 Produktkettennachweis von Holzprodukten – Anforderungen (Appendix 4)

in the valid version at a time (see www.pefc.org) as long as requirements are fulfilled.

Detailed information on the scope of the certification can be found in the addendum of this certificate.

Certificate number: HFA-COC-0018 (Multisite)
Date of first issuance: 27.05.2014
Date of issuance: 15.06.2015
Valid to: 26.05.2019

Holzindustrie Schweighofer's PEFC certificate



Alex Gavan

PART 5. ROMANIAN POLICY CONTEXT

SECTION 5.1: ROMANIA'S ATTEMPTS TO REFORM FOREST GOVERNANCE

In an effort to clamp down on the illegal timber trade, Romania has implemented a new system to electronically track all timber harvested in the country. The SUMAL system (Sistem informațional integrat de urmărire a materialelor lemnoase), started in 2008, records the amount of timber permitted for harvesting, and every load of timber cut and transported in the country.⁴³⁶ At each node in the supply chain, loggers, traders, and buyers must report to the government every shipment of timber they sell or receive.⁴³⁷ In 2014, the government unveiled a new interactive system for citizens and receivers to determine the legality of any truckload of timber on the road. By dialing the phone number 112, a caller can request the legal status of a shipment of timber by giving the license plate number, and immediately receive back a simple answer: legal or illegal.⁴³⁸ However, even timber defined by the system as “legal” could easily have been illegally sourced, as SUMAL only records which logs have been correctly registered with appropriate documentation.⁴³⁹

The primary weakness of the SUMAL electronic tracking system is that it cannot check the original legality of the inputs.⁴⁴⁰ If timber is cut outside of concession boundaries, in restricted areas, on stolen land, or if healthy trees are harvested in place of beetle-infested trunks under a sanitary permit, the SUMAL system records all of these as within legal quotas.⁴⁴¹

In addition, SUMAL allows a single transportation permit to be valid for a certain amount of time, based on the distance estimated to be traveled — a truck is given 14 hours to transport logs 100 km from forest to depot or mill, or 24 hours for 200 km, and so on.⁴⁴² Government investigations have found cases where trucks have run two or even three trips from a forest loading area to a mill — all of these are recorded under government records as a single shipment.⁴⁴³ Trailers and cabs on logging trucks have different and unique license plate numbers—transportation documents can

legally be associated with either one or the other under the SUMAL system.⁴⁴⁴

All buyers of timber are required to report to SUMAL all of their purchases. However, forest police who raided Schweighofer's sawmill in Rădăuți in 2014 uncovered numerous violations of this reporting requirement by Schweighofer (see Case #3: Rădăuți sawmill, p.18).⁴⁴⁵

Sources indicate that SUMAL lacks an automatic tallying system, which would total all inputs against legal harvesting quotas, and throw up red flags when harvesting quotas are exceeded or transport documents have been filled.⁴⁴⁶ Such a system would allow forest police to immediately identify and enforce violations. Unfortunately, seven years after SUMAL came into force, the system still lacks this basic reporting function.⁴⁴⁷

The SUMAL system contains many elements of a strong tracking system, if it were well implemented. In practice, gaps in implementation have limited the effectiveness of the SUMAL system in combatting illegal logging in Romania.

Schweighofer lobbies to affect Romania's new forest code

On March 23, 2015, the President of Romania sent a proposed forest law back to the Parliament for amendment and debate.⁴⁴⁸ This law would potentially have serious consequences for Schweighofer, as it limits a single company to sourcing a maximum of 30% of a single timber species in Romania.⁴⁴⁹ Soon after this announcement, Romanian media released a leaked letter from the CEO of Schweighofer to the Romanian Prime Minister demanding that the proposed law be amended and threatening consequences to trade relations between Austria and Romania if it was not.⁴⁵⁰ Another leaked letter from the Austrian Embassy in Bucharest demanded that the Romanian government meet with Schweighofer to reach an agreement on the proposed forest law.⁴⁵¹

As noted above, Schweighofer currently consumes around 40% of Romania's annual softwood production. In undercover meetings with EIA investigators, Schweighofer

sourcing officials in Romania explained that in order to make a profit, the company needed the majority of all spruce available in Romania, and this was the reason the company opposed the new forest law.⁴⁵² When asked by EIA investigators whether Schweighofer was able to still influence the law, Schweighofer's Austrian purchasing manager, Karl Schmid said, “there was a lot of illegal cutting, stealing and so on in the last years in Romania. So, in Romania, people were listening, it was a sensitive point. . . . So, okay, it was good in politics now, it being election year, to make big noise and to say look, we will stop everything, we will do everything. With how it came now out, I am sure the same it will disappear again.”⁴⁵³

Romanian civil society is justifiably outraged. On May 9th, 2015, thousands took to the streets in 14 cities across Romania in the country's largest ever protests against forest crime.⁴⁵⁴ In an open letter delivered to Austrian embassies around the world, 34 non-governmental organizations requested the Austrian government to remove its support for Schweighofer in Romania.⁴⁵⁵ A broad cross-section of civil society groups continues to work to see the implementation of the new forest law strengthened.⁴⁵⁶

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PART 6. CONCLUSION

Europe is close to losing its last virgin forests, at the very time when it is focusing on saving forests around the world. Two thirds of these remaining virgin forests are found in Romania, and are critically threatened by illegal logging and corruption within the country.

The money that feeds the corruption and the market for the illegal wood in Romania comes from the biggest European wood processors and buyers. The biggest of these companies is Holzindustrie Schweighofer.

EIA's field investigations reveal the ugly face of illegal logging in Romania. Fueled by foreign corporate money and driven by corruption and organized crime, illegal logging is not only a destabilizing force for Romania's vital fight against corruption, but is also destroying Europe's last virgin forests and damaging the economic future and homeland for many communities exploited during Communist rule.

EIA's investigation shows that the largest buyer of softwood in the country, Holzindustrie Schweighofer, has a policy of accepting and incentivizing the harvesting of illegal wood in word and in practice. If forests across Europe are to have a chance to avoid decimation over the next decade, actions such as those undertaken by Schweighofer require clear consequences. The European Union has made commitments to stop deforestation abroad, and they need to make good on these commitments at home.

Consequences and support must come from all countries, companies, and consumers involved in order to have a chance at creating real change in Romania. As Schweighofer's CEO, Gerald Schweighofer has said, "In our opinion harder steps against illegal cutting must be taken. Severe penalties have to be awarded, so that nobody dares to break the laws any longer. If this is possible, the companies that are working according to the rules will have much more chances to develop and the further development of strategies could be easily implemented."⁴⁵⁷

Unfortunately there is no one more deserving of clear penalties than Mr. Schweighofer's company itself, since it is the largest buyer of and willingly accepts illegal wood. All countries, companies and consumers involved must impose penalties on Schweighofer so that it begins to do as it professes and provides legally sourced wood to its customers.

If forests across Europe are to have a chance to avoid decimation over the next decade, actions such as those undertaken by Schweighofer require clear consequences. The European Union has made commitments to stop deforestation abroad, and they need to make good on these commitments at home.

RECOMMENDATIONS

The government of Romania should:

- 1) Support its agencies in pursuing a comprehensive investigation and prosecution of Schweighofer's operations in Romania (already underway);
- 2) Collaborate with EUTR enforcement officials in Romania and other destination countries receiving Schweighofer products;
- 3) Increase funding and support to forest police across the country;
- 4) Investigate and fully prosecute illegal logging cases across the country with a focus on the organized crime groups behind them, particularly by making links between cases to uncover patterns;
- 5) Continue to crack down on corruption and take meaningful steps to reform the forest sector at all levels, including removing unnecessary bureaucratic barriers for legal actors;
- 6) Improve the SUMAL electronic timber tracking system, to create alerts for forest police when harvest quotas are exceeded or when transport documents have been used for multiple shipments, and for receiving companies when timber purchases lack SUMAL registration numbers;
- 7) Reform the restitution process to facilitate restitution to legal claimants and aggressively prosecute cases of fraud and corruption.

Austria and other EU member states receiving wood from Romania should:

- 1) Collaborate closely with Romanian enforcement officials to share information about Schweighofer and other European companies operating in and buying from Romania;
- 2) Enforce the EU Timber Regulation (EUTR), which prohibits the placing of illegally harvested timber on the European market and requires EU traders to exercise due diligence, to the greatest extent possible, in particular through initiating an investigation into Schweighofer and companies purchasing products from Schweighofer and prosecuting known violations;
- 3) Require companies to provide all transaction information from shipments from Schweighofer and Romania in compliance with the EUTR traceability requirements, which requires traders to provide records of their suppliers and customers;
- 4) Consider any additional legal mechanisms, such as laws governing trade in stolen property and consumer fraud, to protect their consumers from buying in illegally sourced wood from Romania.

The European Union (EU) should:

- 1) Close the EUTR first placer loophole which allows traders to sell illegal timber throughout Europe with impunity;
- 2) Support Romania and other EU states in implementation, governance reform and capacity challenges;
- 3) Proactively assess the state of implementation of the EUTR in Romania and all member states and address any implementation gaps to ensure all member states are fully implementing their obligations under the EUTR.

The United States (US) should:

- 1) Enforce the Lacey Act, which prohibits the import of illegally sourced wood products into the United States, where applicable, to prevent illegal timber from the EU entering the US and fueling illegal logging in Romania.

Japan, as a major purchaser of timber from Schweighofer, should:

- 1) Enact a prohibition on imports of illegally sourced timber with robust due diligence requirements and dissuasive penalties;
- 2) Cancel all relevant orders from Schweighofer via its existing procurement program.

Retailers and traders should:

- 1) Cancel all contracts with Schweighofer until the company can prove that it has a robust, third party verified system in place to avoid illegal timber;
- 2) Ensure rigorous due diligence and compliance measures are fully upheld to avoid purchasing illegally sourced wood products within the EU;
- 3) Make available to authorities all transaction records relating to supplies from Schweighofer and Romania.

Consumers should:

- 1) Ask questions of companies buying from Romania, to ensure that they take full measures to assure legal compliance.

Certifying Bodies (like PEFC and FSC) should:

- 1) Immediately cancel all certifications of Schweighofer and any company in Romania which cannot verify all its sources from stump to mill;
- 2) To avoid "greenwashing", in no circumstances present chain-of-custody certificates as fulfilling EUTR due diligence requirements.

GLOSSARY

APV: Logging authorization permit or standing wood evaluation? Both are given in the report (p.3 and 31).

Aviz: Romanian transportation document for log shipments that records information specific to the single shipment, including harvest location and plot number, vehicle registration number and driver's name, destination company, and exact size and dimensions of all logs.⁴⁵⁸ The *aviz* must be registered in the SUMAL (Sistem informațional integrat de urmărire a materialelor lemnoase) nationwide electronic log-tracking database before transportation begins.

Biomass: The biodegradable fraction of products, waste and residues from biological origin from agriculture, forestry and related industries, including fisheries and aquaculture, as well as the biodegradable fraction of industrial and household waste.

Circular cutting: Small clear cuts made in a circle.

Court of Accounts: Romanian government auditing agency that carries out audits of other Romanian state agencies' activities (see Section 1.1).

DIY: "Do-It-Yourself" home improvement.

DNA: Romanian National Anticorruption Directorate (Direcția Națională Anticorupție).

Due diligence: Under the European Union Timber Regulation (also see "European Union Timber Regulation") in particular, due diligence consists of a risk management system that includes access to information, risk assessment, and risk mitigation, which timber operators (also see "operator") must undertake in order to minimize the risk of placing illegally harvested timber or timber products containing illegally harvested timber on the EU market.⁴⁵⁹ Similar systems are required under other illegal logging prohibitions, such as the US Lacey Act, and certification systems, such as the Programme for Endorsement of Forest Certification (PEFC).

ENplus: A voluntary pellet quality certification implemented by the European Pellet Council (also see "European Pellet Council") intended to increase burning quality standards and decrease carbon emission levels (see SIDEBAR: Biomass and wood pellets in the European market).⁴⁶⁰

European Pellet Council (EPC): An umbrella organization that represents the interests of the European wood pellet sector and is made up of national pellet associations or related organizations from 17 countries (see SIDEBAR: Biomass and wood pellets in the European market).⁴⁶¹

European Union Timber Regulation (EUTR): Regulation that prohibits the placement of illegally harvested timber on the EU market, entered into effect on March 3, 2013 and applicable to all EU member states. Under the EUTR, timber operators (also see "operator") who place timber and timber products on the market are required to follow three main obligations: 1) Placing illegally harvested timber and products derived from such timber on the EU market is prohibited; 2) Companies or individuals that place timber products on the EU market for the first time are required to exercise 'due diligence'; 3) Keep records of their suppliers and customers (see Section 3.2).⁴⁶²

Forest Stewardship Council (FSC): An independent forest and forest products certification organization offering three types of certification: 1) Chain of Custody (COC) certification traces the supply chain of products made from FSC-certified material from FSC-certified forests; 2) Forest Management (FM) certification verifies that a specific area of forest is managed in line with FSC Principles and Criteria through an FSC-accredited Certification Body; 3) Controlled Wood (CW) certification labels non-certified material subject to controlled conditions which may be mixed with FSC-certified material to be sold under an FSC Mix label (see Section 3.3).⁴⁶³

Hammer stamp: A visible stamp made by hammer or paint by a certified forest engineer that marks trees permitted to be cut. In the case of clear cuts or circular cutting, engineers need only mark the trees around the edges of the harvesting zone. For most examples of primary of sanitary cutting, all stumps must be marked before harvesting begins.

Holding company: A company that owns a controlling share of another company (the subsidiary), thereby enabling it to control the subsidiary's policies and management while shielding the individual owners from liability. Generally, a holding company differs from a parent company in that the holding company does not partake in its own business

ventures, but rather exists to manage the financing and acquisition of its subsidiaries (also see "parent company").

Intact Forest Landscape (IFL): An unbroken expanse of natural ecosystems within the zone of current forest extent, showing no signs of significant human activity, and large enough that all native biodiversity, including viable populations of wide-ranging species, could be maintained.

Integral Protection Zones: Internal zone of Romanian national and natural parks in which logging is prohibited, except in special cases such as bark beetle infestation.

INS: Romanian National Institute of Statistics (Institutul Național de Statistică).

ITRSV: Suceava county, Romania forest police (see Case #3, p. 18).

MMAP: Ministry of the Environment, Water and Forests (Ministerul Mediului, Apelor și Pădurilor).

Mtoe: Million tons of oil equivalent, as relates to biomass (also see "biomass").

Natura 2000: An EU-wide network of nature protection areas established under the 1992 Habitats Directive. The aim of the network is to assure the long-term survival of Europe's most valuable and threatened species and habitats. It is comprised of Special Areas of Conservation (SAC) designated by Member States under the Habitats Directive, and also incorporates Special Protection Areas (SPAs) which they designate under the 1979 Birds Directive.⁴⁶⁴

Operator (or first placer): A company or individual that is the first to place illegal timber or wood products on the EU market, as defined by the EUTR (also see European Union Timber Regulation). The EUTR requires operators to undertake due diligence (also see "due diligence") in order to minimize the risk of placing illegally harvested timber or timber products containing illegally harvested timber on the EU market (see Section 3.2).⁴⁶⁵

Parent company: A company that either wholly owns or owns more than 50 percent of another company (the subsidiary), thereby enabling it to control the subsidiary's policies and management.

Principle of Association: Forest Stewardship Council (also see Forest Stewardship Council) policy which forbids



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association with organizations that are directly or indirectly involved in illegal logging or the trade in illegal wood or forest products, among other unacceptable activities (see Section 3.3).⁴⁶⁶

Programme for the Endorsement of Forest Certification (PEFC):

Forest and forest products certification body that provides two types of certification services through third party independent certifiers: 1) Chain of Custody (COC) certification verifies that wood is tracked through the supply chain from forest to final product; 2) Forest certification demonstrates that management practices meet requirements for best practice in sustainable forest management, as determined by the PEFC (see Section 3.3).⁴⁶⁷

Rampa: The platform designated for logs to be loaded onto trucks.

Restitution: The process undertaken by the Romanian government in the early 1990s to return land confiscated by the communist government in 1948 to its descendants of original owners (see Section 1.2).

Romsilva: Romania's National Forest Administration, which is a state-owned company that has managed all of Romania's public forests and most of its national and natural parks since 1996 (Regia Națională a Pădurilor Romsilva) (see Section 1.3).

Sanitary logging permits: Logging permits that allow the cutting of diseased or storm damaged timber.

Shell company: A limited liability entity usually formed in a tax haven for the purposes of hiding illicit financial flows, tax evasion or regulatory abuse.

SUMAL: The Romanian national electronic timber tracking system, established in 2008 and updated with Law No. 470/2014, records the amount of timber permitted for harvesting and every load of timber cut and transported in the country.⁴⁶⁸ At each node in the supply chain, loggers, traders, and buyers must report to the government every shipment of timber they sell or receive. SUMAL provides a basis of due diligence required by the EUTR (Sistem informațional integrat de Urmărire a Materialelor Lemnoase)⁴⁶⁹.

Trader: A company or individual, further down the timber supply chain than an operator (also see "operator"), that has more limited obligations for ensuring the legality of their products under the EUTR (also see "European Union Timber Regulation") (see Section 3.2).⁴⁷⁰

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