



Forest Stewardship Council®

---



# **FSC Conditions Framework for the Schweighofer Group**

**Final version**

April 2018

## – FSC Roadmap process –

In February 2017, FSC disassociated from the Schweighofer Group (HS)<sup>1</sup>. The decision was based on the findings by the complaints panel<sup>2</sup> indicating HS' involvement in irregularities and illegalities in its timber trade operations and its reported involvement in illegal logging by its Romanian forest land enterprise, as well as on the additional information brought to the attention of FSC in January 2017 about the possible violation of Romanian timber measurement standards by HS, which had to be investigated under FSC's Policy for Association (PfA)<sup>3</sup> by FSC.

This document constitutes the final **FSC 'Conditions Framework'** for HS developed by FSC based on the previous drafts by the Stakeholder Working Group (SWG) developed through a stakeholder engagement process. The SWG is the core stakeholder advisory group to FSC for the development of the FSC 'Conditions Framework'.

The **FSC 'Conditions Framework'** stipulates the conditions that must be fulfilled by HS for correcting the identified shortcomings and wrongdoings, compensating for the environmental and social damages resulting therefrom, and preventing the reoccurrence of any previously identified, or ongoing, wrongdoings and/or violations of the FSC's Policy for Association, in order for FSC to consider an ending of its disassociation from HS. The 'Conditions Framework' also defines how the fulfilment of the conditions will be verified (in the form of 'Verification Indicators').

For more information about how stakeholders have been involved in the development of the FSC 'Conditions Framework', the role of the SWG and the overall roadmap process for HS, see the '[FSC Stakeholder Engagement Plan for the Schweighofer Group roadmap process](#)' and the dedicated webpage [here](#).

This **FSC 'Conditions Framework'** has been developed using as basis the 'Conditions for Re-association' proposed by the complaints panel, the stakeholder input provided during the 30 day public consultation managed by FSC which took place from 23 May to 21 June 2017 and the two previous drafts of the document developed by the SWG. (See the previous drafts of this document, as well as the summary of the stakeholder input provided during the public consultation [here](#)).

**The FSC 'Conditions Framework' is one of the two main deliverables as part of the roadmap process towards ending the disassociation.** The second deliverable as part of this process will be for HS to develop an Action Plan outlining the activities that HS is implementing, or plans to implement, in order to fulfill the conditions established by FSC in the 'Conditions Framework'.

Once HS has implemented the measures described in its Action Plan, an independent organization will verify whether the conditions and 'Verification Indicators' in the FSC 'Conditions Framework' have been fulfilled. The result of this verification will be the basis for FSC to decide whether to end the disassociation from HS.

**Table 1** below provides the final FSC 'Conditions Framework'. The first column lists the conditions to be fulfilled by HS in order for FSC to end the disassociation. The second column provides a series of

<sup>1</sup> FSC's statement about the decision available online at: <https://ic.fsc.org/file-download.fsc-statement-schweighofer-group-final-feb-2017.a-1364.pdf>

<sup>2</sup> The public version of the complaints panel evaluation report is available online at: <https://ic.fsc.org/file-download.public-version-of-the-complaints-panel-evaluation-report-oct-2016.6426.htm>

<sup>3</sup> Available online at: <https://ic.fsc.org/file-download.policy-for-the-association-of-organizations-with-fsc-fsc-pol-01-004-v2-0-en.a-1416.pdf>

Verification Indicators to be used by an independent third party, to determine whether HS is in compliance with the required conditions.

## Terms and definitions

For the purpose of this document the following definitions apply (in addition to those included in the *'FSC Stakeholder Engagement Plan for the Schweighofer Group roadmap process'*):

**Action Plan:** document developed by HS, outlining the activities that HS is implementing, or plans to implement, in order to fulfil the conditions established by FSC in the 'Conditions Framework'.

**Conditions Framework:** document developed by FSC, in consultation with relevant stakeholders, which stipulates the conditions that need to be fulfilled by HS for correcting the identified shortcomings and wrongdoings, compensating for the environmental and social damages resulting therefrom, and preventing the reoccurrence of any previously identified, or ongoing, wrongdoings and/or violations of the FSC's Policy for Association. The 'Conditions Framework' also defines how the fulfilment of the conditions will be verified (in the form of 'Verification Indicators').

**Forest Stewardship Council (FSC):** FSC Global Development GmbH, legally represented by its Managing Director, Kim Bering Becker Carstensen.

**HS Group (HS):** The Schweighofer Group shall include the following entities: Holzindustrie Schweighofer S.R.L., Holzindustrie Schweighofer BACO S.R.L., Cascade Empire S.R.L., Belforest S.R.L., as well as all timber and forest enterprises part of the Schweighofer Group.

**Roadmap process:** constructive dialogue process between FSC and HS for the development of a roadmap which will stipulate the conditions that HS shall fulfil in order for FSC to end the disassociation. The roadmap process will be constituted of two main products: FSC's 'Conditions Framework' and HS' 'Action Plan'.

**Stakeholder Working Group (SWG):** a group of selected key stakeholders who have either relevant professional experience of, or are directly affected by, the topic/organization under discussion. The SWG is the core stakeholder advisory group to FSC for the development of the FSC *'Conditions Framework'*.

## <sup>4</sup>Scope

The Conditions and Verification Indicators described in the FSC 'Conditions Framework' below have the following scope:

- Conditions 1, 6 and 7: entirety of HS' operations;
- Condition 2: applicable when sourcing from high risk countries/ areas (categorized as specified and unspecified risk according to FSC CW risk categories);
- Conditions 3, 4 and 5: limited to HS' operations in Romania.

---

<sup>4</sup> **Note:** In all circumstances where the Conditions and Verification Indicators described in the FSC Conditions Framework interfere with any national and/or EU legal or regulatory norms or with the FSC Standards, HS shall be required to fulfil the Conditions and Verification Indicators as far as possible, without violating any legal and/or regulatory norm or the FSC Standard.

## Table of Contents of the FSC Conditions Framework

<b>1. Corporate Social Responsibility .....</b>	<b>5</b>
<b>1.a. Corporate Social Governance.....</b>	<b>5</b>
<b>1b. Corporate Social Responsibility.....</b>	<b>9</b>
<b>2. Strengthening of its Due Diligence and Chain of Custody Systems.....</b>	<b>12</b>
<b>2a. Traceability of round wood .....</b>	<b>13</b>
<b>2b. Verification of timber documentation .....</b>	<b>14</b>
<b>2c. Correction of errors in timber documentation .....</b>	<b>16</b>
<b>2d. Accounting of movement of wood materials .....</b>	<b>16</b>
<b>2e. System for addressing stakeholder input .....</b>	<b>17</b>
<b>2fi. Refraining from doing business with convicted entities.....</b>	<b>17</b>
<b>2g. Internal auditing of DD and CoC systems .....</b>	<b>18</b>
<b>2h. External auditing of DDS and CoC systems .....</b>	<b>19</b>
<b>3. Independent legal land ownership review and compensation to the lawful land owners of illegal land restitution processes .....</b>	<b>20</b>
<b>3.1 Independent legal land ownership review.....</b>	<b>20</b>
<b>3.2 Returning the land and compensating the lawful land owners of illegal land restitution processes .....</b>	<b>21</b>
<b>4. Contribution to Social and Environmental projects promoting responsible development of forests and forest based communities in Romania .....</b>	<b>23</b>
<b>4a. Establishment of financial set up for the independent fund .....</b>	<b>23</b>
<b>4b. Public communication about progress of projects resulting from the fund .....</b>	<b>24</b>
<b>4c. Initial contribution to the fund .....</b>	<b>25</b>
<b>4d. Continuous contribution to the fund .....</b>	<b>25</b>
<b>5. Compensation for damages for which there has been a proven causality in Romania</b>	<b>25</b>
<b>6. Additional Trust Building Measures .....</b>	<b>26</b>
<b>7. Compensation of PfA Investigation Costs to FSC .....</b>	<b>26</b>
<b>8. Minimum threshold of compliance with the FSC Conditions Framework.....</b>	<b>27</b>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
1	<p><b>1. Corporate Social Responsibility</b></p> <p>Corporate Social Responsibility (CSR) policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and national or international norms.</p>	
1.a	<p><b>1.a. Corporate Social Governance</b></p> <p>HS must define, publicize (in English, Romanian and German languages) and implement organizational rules and penalties to ensure an ethical business behavior by all its employees of the company group (including all its subsidiaries and affiliates operating in the forest and/ or timber trade sector).</p> <p>HS has to communicate its policy regarding ethical business behavior to all its employees and first tier suppliers and only engage in business with those that commit to such policy and terminate the business with those who violate the commitment. HS must also request its first tier suppliers to communicate along the supply chain encouraging the rest of HS' supply chains to commit to this policy and only engage in business with those that have expressed their commitment.</p> <p>Elements <b>1a.i – 1a.iv</b> below (and others that may be considered necessary by HS) shall be covered by such organizational rules.</p>	
1.a.i	<p><b>i. Anticorruption and Integrity Policy</b> for the HS group (including its subsidiaries and affiliates operating in the forest and/or timber trade sector).</p> <p>- HS must put in place and publish an Anticorruption and Integrity Policy applicable to the entirety of its group (including its subsidiaries and affiliates operating in the forest and/or timber trade sector) expressly committing (but not limited to) the following:</p> <ul style="list-style-type: none"> <li>○ Avoiding any direct, vicarious or grossly negligent involvement in any form of corrupt, fraudulent, coercive, collusive, abusive and obstructive practices;</li> <li>○ Group-wide commitment to operate according to the highest ethical standards;</li> </ul>	<p>Independent verification confirms:</p> <ul style="list-style-type: none"> <li>- That HS' CSR policy document has been publicized, in all three languages: English, Romanian and German, within three months from the approval of this document by FSC Board of Directors;</li> <li>- That an effective Anticorruption and Integrity Policy (and the necessary mechanisms for its implementation) applicable across HS' operations and supply chains operating in the forest and/or timber trade sector is in place and publically available in English, Romanian and German on their Website and in printed form;</li> <li>- HS has communicated across the entirety of its employees and first tier suppliers operating in the forest and/or timber trade sector about its</li> </ul>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<ul style="list-style-type: none"> <li>○ Avoiding any direct, vicarious or grossly negligent involvement in any conflict of interest (by avoiding any situation in which HS could improperly influence a party's performance of official duties or responsibilities, or compliance with applicable laws and regulations for its business benefit);</li> <li>○ Avoiding any direct, vicarious or grossly negligent involvement in any of the unacceptable activities as defined by FSC Policy for Association (FSC-POL-01-004);</li> <li>○ Investigating and addressing any case in which risks of being involved in any of the above is identified/ brought to their attention.</li> </ul> <p>HS has to communicate in writing and get their employees and first tier suppliers to commit to the following:</p> <ul style="list-style-type: none"> <li>○ Avoiding any direct, vicarious or grossly negligent involvement in corrupt, fraudulent, coercive, collusive, abusive and obstructive practices;</li> <li>○ Operating according to the highest ethical standards (in line with HS Anticorruption and Integrity Policy);</li> <li>○ Cooperating during the investigation of cases to address issues in which risks of being involved in the above is identified/ brought to their attention.</li> </ul> <p><b>Note:</b> The commitment to the above shall be part of the Terms and Conditions of the contractual agreements between HS and its employees and its first tier suppliers included as part of the Terms and Conditions of such contractual agreement.</p> <ul style="list-style-type: none"> <li>- HS must also request its first tier suppliers to communicate along the supply chain encouraging the rest of HS' supply chains to commit to this policy and to only engage in business with those that have expressed their commitment.</li> <li>- HS has the necessary mechanisms (resources, procedures, records, and other) in place to ensure the fulfillment of the commitments described in its Anticorruption and Integrity Policy across the entirety of its operations and supply chains operating in the forest and/ or timber trade sector;</li> </ul>	<p>Anticorruption and Integrity Policy expected to be followed and about the consequences of not doing so;</p> <p>-HS has obtained written commitment from all its employees and first tier suppliers operating in the forest and/or timber trade sector to the following:</p> <ul style="list-style-type: none"> <li>○ Avoiding any direct, vicarious or grossly negligent involvement in corrupt, fraudulent, coercive, collusive, abusive and obstructive practices;</li> <li>○ Operating according to the highest ethical standards (in line with HS Anticorruption and Integrity Policy);</li> <li>○ Cooperating during the investigation of cases to address issues in which risks of being involved in the above is identified/ brought to their attention.</li> </ul> <p><b>Note:</b> This written commitment to the above principles in line with the Anticorruption and Integrity Policy been obtained through the signature of the contractual agreements between HS and its employees and its first tier suppliers (such contracts clearly describe these commitments as part of their Terms and Conditions).</p> <ul style="list-style-type: none"> <li>- The compliance by employees and first tier suppliers with such policy and its mechanisms is enforced and controlled;</li> <li>- That non-compliances or potential non-compliances with its Anticorruption and Integrity Policy and related mechanisms identified during HS' audits (or brought to their attention through other means) are timely investigated and addressed by HS. A public summary of the findings of the conducted audits are publicized by HS on a quarterly basis.</li> <li>-There are records available demonstrating that in those cases where the commitments described in 1ai are violated, HS has terminated its business with the supplier/ employee found in violation and/or sent warning notices to the relevant supplier/employee warning about the possibility that business contracts are terminated if the situation is not corrected.</li> <li>-There are records available of HS formal communication/ request to all its first tier suppliers to communicate along the supply chain encouraging the rest of HS' supply chains to commit to this policy and to</li> </ul>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<ul style="list-style-type: none"> <li>- HS' Anticorruption and Integrity Policy is regularly revised and improved (and stakeholder input is considered in such revision);</li> <li>- HS' conducts periodic audits to its employees and first tier suppliers to ensure their fulfillment of the commitments described in the Anticorruption and Integrity Policy and the related mechanisms (results of such audits are recorded and a public summary of the audit results is published by HS);</li> </ul>	<p>only engage in business with those that have expressed their commitment.</p> <ul style="list-style-type: none"> <li>- That stakeholder input provided related to its Anticorruption and Integrity Policy and mechanisms is duly considered by HS for their revision.</li> </ul> <p>FSC reserves the right to audit of any records related to the fulfillment of the commitments described in its Anticorruption and Integrity Policy of HS either itself or through an appointed third party. All results of such an audit will first be shared with HS before made public.</p>
1.a.ii	<p><b>ii. Public Timber Sourcing Policy</b></p> <p>HS must put in place and publish a Timber Sourcing Policy:</p> <ul style="list-style-type: none"> <li>• Committing to securing the sustainable and responsible sourcing of its timber needs across the entirety of its business; and</li> <li>• Providing an explicit statement on the exclusion of timber which is not harvested according to the legislation of the country of origin from its supply chains as being its express responsibility.</li> <li>• Providing an explicit statement on the exclusion of sourcing or purchasing round timber from those areas classified as non-harvesting areas by Romanian legislation.</li> <li>• Providing an explicit statement of the exclusion of sourcing or purchasing round timber that comes from forestry lands whose property is being disputed in court in those cases when the court has decided for the suspension of the operations.</li> </ul> <p><b>Note:</b> For Romania special attention should be given to the following areas: Virgin-Forests as identified according to the Romanian legislation (including the Ministerial Order 3397/2012) and non-harvesting areas zones as identified in the management plans of Natura 2000 sites and national and nature parks.</p>	<p>-HS publishes its Timber Sourcing Policy (in English, Romanian and German), explicitly declaring its commitment to securing the sustainable and responsible sourcing of its timber needs across the entirety of its business; and to excluding of all timber which is not harvested according to the legislation of the country of origin from its supply chains as being its express responsibility, including an explicit statement on the exclusion of sourcing or purchasing round timber from those areas classified as non-harvesting areas by Romanian legislation and also providing an explicit statement of the exclusion of sourcing or purchasing round timber that comes from forestry lands whose property is being disputed in court in those cases when the court has decided for the suspension of the operations.</p>
1.a.iii	<p><b>iii. <u>Internal</u> Procedure for Purchasing Routines</b></p> <ul style="list-style-type: none"> <li>• HS must define and put in place clear <u>internal</u> procedures for purchasing routines and include them in the company's compliance documents, establishing requirements aiming to promote the legal and ethical business</li> </ul>	<p>Independent verification confirms that:</p> <ul style="list-style-type: none"> <li>- Effective Internal Procedures for Purchasing Routines are in place and included in the company's compliance documents;</li> </ul>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<p>behavior by its employees (whose roles relate to supply chain activities or operations) and contractors or employees of contractors or any other person working on behalf of HS;</p> <ul style="list-style-type: none"> <li>• Requirements related to the internal purchasing routines must be openly communicated to employees (by stating these requirements in the Terms and Conditions of the written contracts between HS and its employees);</li> <li>• Internal auditing of the employee's compliance with the internal procedures for purchasing routines must be conducted (and records of the results of such audits shall be kept for a minimum period of seven years).</li> </ul>	<ul style="list-style-type: none"> <li>- Employees whose roles relate to supply chain activities or operations have been clearly informed periodically about the establishment of the Internal Procedures for Purchasing Routines and trained about the relevance of legal and ethical business behavior and their responsibility to comply with such Internal Procedures for Purchasing Routines. All employees whose roles relate to supply chain activities or operations acknowledge this information in writing. Written contracts between HS and its employees state the requirements related to Internal Procedures for Purchasing Routines that shall be complied with by employees;</li> <li>- Periodic internal auditing is conducted to assess employee's compliance with Internal Procedures for Purchasing Routines. All results of such auditing are stored for a minimum of seven years;</li> <li>- Effective and timely measures are applied to address and correct any noncompliance identified during internal auditing of employees' compliance with the Internal Procedures for Purchasing Routines.</li> </ul>
1.a.iv	<p><b>iv. <u>External</u> Guidelines for Purchasing Routines</b></p> <ul style="list-style-type: none"> <li>• HS must put in place guidelines for purchasing routines and communicate them clearly to promote the legal and ethical business behavior by its supply chains and to disincentive suppliers to manipulate information to their own personal or anybody else's benefit. (E.g. Manipulation of information related to timber origin, distance from the mill, etc.);</li> <li>• Requirements related to the external purchasing routines must be openly communicated to first tier suppliers (by stating these requirements in the Terms and Conditions of the written contracts between HS and its first tier suppliers);</li> <li>• HS must also request its first tier suppliers to communicate further down the supply chain encouraging suppliers across all its supply chains to commit to and follow these guidelines, and to only engage in business with those suppliers that have expressed their commitment to it.</li> </ul>	<p>Independent verification confirms that:</p> <ul style="list-style-type: none"> <li>- Effective External Guidelines for Purchasing Routines are in place and included in the company's compliance documents;</li> <li>- First tier suppliers have been clearly informed about the establishment of the External Guidelines for Purchasing Routines and trained about the relevance of legal and ethical business behavior and their responsibility to comply with the requirements of such External Guidelines for Purchasing Routines;</li> <li>- Written contracts between HS and its first tier suppliers state the requirements related to External Guidelines for Purchasing Routines that shall be complied with by its first tier suppliers;</li> </ul>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<ul style="list-style-type: none"> <li>• First tier suppliers must commit to deliver documents related to the legality and origin of the round wood when requested by HS;</li> <li>• First tier suppliers must accept external audits conducted in relation to business with HS when requested by HS. (Records of the results of such audits shall be kept and a summary of the results of the audits shall be published by HS).</li> </ul>	<ul style="list-style-type: none"> <li>- Periodic external auditing is conducted to assess its first tier suppliers compliance with External Guidelines for Purchasing Routines;</li> <li>- Effective and timely measures are applied to address and correct any noncompliance identified during the auditing of first tier suppliers' compliance with the External Guidelines for Purchasing Routines. A public summary of the findings of the audits are publicized by HS on a quarterly basis.</li> <li>- There are records available of HS formal communication/ request to all its first tier suppliers to communicate further down the supply chain encouraging suppliers across all its supply chains to commit to and follow these guidelines, and to only engage in business with those suppliers that have expressed their commitment to it.</li> </ul>
1b	<p><b>1b. Corporate Social Responsibility</b></p> <p>HS must set up an effective Corporate Social Responsibility (CSR) system referring to the mandatory CSR reports based on the European Union Directive issued in 2016 (transposed by the Romanian Order of the Ministry of Public Finance No. 1938 / 2016).</p> <p>This CSR system shall include:</p>	

#	FSC Condition for ending the disassociation with HS	Verification Indicator
1b.i	<p>i. <b>A CSR guiding document</b> (available in Romanian, English and German) covering the following aspects:</p> <ul style="list-style-type: none"> <li>• <b>Public Timber Sourcing Policy and commitment to have the appropriate internal purchasing routines</b> to ensure the fulfillment of conditions 1.a.ii and 1.a.iii above;</li> <li>• <b>Stakeholder Engagement</b> <ul style="list-style-type: none"> <li>- HS must provide clear and transparent opportunities to all the relevant stakeholders<sup>5</sup> (including any stakeholder which has expressed its interest and/ or request to be engaged, as well as any affected stakeholders), national and international, for their engagement in the development of HS' final Action Plan to be presented to FSC (and for providing input about its overall operations);</li> <li>- Input provided by stakeholders with regards to the measures proposed as part of its Action Plan shall be duly considered and addressed, in a structured and organized manner, during the process for the development of its final Action Plan;</li> <li>- HS' Action Plan must be made publically available.</li> </ul> </li> </ul>	<p>HS has an effective, transparent and publically available Corporate Social Responsibility (CSR) system referring to the mandatory CSR reports based on the European Union Directive issued in 2016 starting with the financial year 2017.</p> <p>Such timber CSR system has been verified by an independent third party, which has confirmed that:</p> <ul style="list-style-type: none"> <li>-A CSR guiding document has been published in all three languages: Romanian, English and German;</li> <li>-The CRS guiding document covers all the aspects required under condition 1b.i. Further details to the CSR guiding document may also be provided in complimentary documents;</li> <li>-HS strategy and activities for stakeholder engagement are clearly described as part of the CSR guiding document in the form of a proposal for a stakeholder engagement protocol describing the foreseen consultation and stakeholder engagement process to be conducted for the development of its Action Plan.</li> <li>- The implementation of HS' stakeholder engagement protocol as described under its CSR guiding ensures that: <ul style="list-style-type: none"> <li>• clear and transparent opportunities are provided to all the relevant stakeholders for their engagement in the development of HS' final Action Plan to be presented to FSC (as well as to provide feedback about other relevant issues related to HS' overall operations);</li> <li>• Stakeholder input provided to HS with regards to the measures proposed as part of its Action Plan (and about its overall operations) are duly considered by HS in a structured and organized manner;</li> </ul> </li> </ul>

<sup>5</sup> See definitions and background information provided in the [FSC International Standard FSC Principles and Criteria for Forest Stewardship \(FSC-STD-01-001 V5-2\)](#) and [FSC Glossary of Terms \(FSC-STD-01-002\)](#), such as the definitions of 'affected stakeholders' and 'interested stakeholders'.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
1b.ii	<p>ii. A system to minimize and assess the social and environmental impacts related to HS' operations. Records of the implementation of such system are kept for a minimum of seven years.</p> <p><b>Note:</b> Output from stakeholder consultation should be duly considered when assessing the environmental and social impacts (such as the impact of HS' consumption of wood for energy on firewood procurement by the rural population – issue which was raised as a result of the stakeholder public consultation developed by FSC on the Conditions Framework).</p>	<p>Independent verification confirms that:</p> <ul style="list-style-type: none"> <li>- HS has an effective system to assess and minimize the social and environmental impacts related to its operations and supply chains, which is included as part of its Corporate Social Responsibility (CSR) system;</li> <li>- The implementation of such impact assessment system ensures that social and environmental impacts related to HS' operations are assessed, minimized, mitigated, prevented and corrected adequately.</li> </ul>
1b.iii	<p>iii. A Risk Management Program covering all its wood supply chains. Records of the implementation and results of the risk analysis of this program are kept and stored for a minimum of seven years.</p> <p><b>Note:</b> The scope of supply chains includes first tier suppliers, suppliers further down the supply chain (where feasible) and the origin of timber at the Forest Management Unit.</p>	<p>Independent verification confirms that:</p> <ul style="list-style-type: none"> <li>- HS has an effective Risk Management Program covering all its wood supply chains, which is included as part of its Corporate Social Responsibility (CSR) system;</li> <li>- The implementation of such program ensures that risks related to its operations are appropriately evaluated, and that effective measures are taken to prevent, correct and mitigate any identified risks.</li> </ul>
1b.iv	<p>iv. Corporate communications offering a platform for stakeholder information and engagement, including publically information requested in the above and below conditions. (See below list of all information required to be published by HS).</p> <p>Information required to be published by HS:</p> <ul style="list-style-type: none"> <li>- CSR policy document in all three languages: English, Romanian and German (1.a)</li> <li>- Anticorruption and Integrity Policy in English, Romanian and German (1a.i)</li> <li>- A summary of the findings in relation to compliance with its Anticorruption and Integrity Policy and related mechanisms resulting from HS' audits, including non-compliances and potential non-compliances, as well as the results of the investigations by HS of the identified non-compliances and/or potential non-compliances; (1a.i)</li> </ul>	<p>HS has a publically available and easily accessible communications platform which:</p> <ul style="list-style-type: none"> <li>- Provides information about its: CSR strategy and activities (included in its CSR guiding document), stakeholder engagement protocol, Action Plan, Timber Sourcing Policy, Anticorruption and Integrity Policy, a summary of the results of the documentation verification, a public summary of the results of the external audits conducted to its DDS and CoC systems, a public summary of the findings of HS' audits conducted to its first tier suppliers in relation to the External Guidelines for Purchasing Routines, a public summary of the findings of the audits in relation to its Anticorruption and Integrity Policy, a public summary of the results of the legal land ownership review, the selection criteria and the results of selection used for the selection of environmental and social projects, quarterly progress reports on the implementation of the environmental and social projects, a detailed overview of PfA</li> </ul>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<ul style="list-style-type: none"> <li>- Timber Sourcing Policy (in English, Romanian and German) (1.a.ii);</li> <li>- A summary of the findings of HS' audits conducted to first tier suppliers in relation to their compliance with the External Guidelines for Purchasing Routines (1.a.iv);</li> <li>- CSR guiding document in all three languages: Romanian, English and German; (1b.i)</li> <li>- HS' Action Plan; (1b.i)</li> <li>- A summary of the results of the documentation verification (2b);</li> <li>- An updated list of all suppliers, partners and organizations HS engages business with in the context of forest land, timber harvesting and trade (2fii);</li> <li>- A public summary of the results of the external audits conducted to its DDS and CoC systems; (2hii)</li> <li>- A summary of the results of the legal land ownership review; (3.1)</li> <li>- Selection criteria and the results of selection used for the selection of environmental and social projects (4a);</li> <li>- Results of the implementation of environmental and social projects (4a);</li> <li>- Quarterly progress reports on the implementation of the environmental and social projects (4a);</li> <li>- Detailed overview of PfA investigation costs (6).</li> </ul>	<p>investigation costs and an updated list of all suppliers, partners, organizations and individuals HS engages business with.</p> <ul style="list-style-type: none"> <li>- Provides a communications channels to receive and address stakeholder input (in compliance with 1b.i)</li> <li>- Satisfies stakeholder expectations in terms of information published, transparency and opportunities to provide feedback.</li> </ul>
2	<p><b>2. Strengthening of its Due Diligence and Chain of Custody Systems</b></p> <p>HS must develop and implement Due Diligence (DD) and Chain of Custody (CoC) systems that address the existing risks in Romania and in the external timber sourcing areas and avoid HS' direct and/or indirect involvement in any form of illegality in its forestry and timber trade operations.</p> <p>Elements <b>a - h</b> below (and others that may be considered necessary by HS) will be ensured through the implementation of such DD and CoC systems.</p> <p><b>Note:</b> Compliance with Condition 2 is required when sourcing from high risk countries/ areas (countries/ areas categorized as specified and unspecified risk according to FSC CW risk categories). Condition 2 requirements are not required to be implemented when sourcing from low risk countries/ areas.</p>	

#	FSC Condition for ending the disassociation with HS	Verification Indicator
2a	<p data-bbox="293 204 636 229"><b>2a. Traceability of round wood</b></p> <p data-bbox="367 245 1211 437">Legal ownership of the entire quantity of round wood can be traced from the forest stand to HS' mill gate of the primary processing site <sup>6</sup>via unbroken chain of custody, including any timber purchased from third parties. Inventories of the stocks at any given time correspond to the documented volumes. Documents related to the round wood's origin can be obtained upon request across its supply chain.</p> <ul data-bbox="338 477 1211 1123" style="list-style-type: none"> <li>• If a supplier cannot confirm the traceability of the legal ownership of all the round wood in its possession, HS shall require the supplier either physical separation of the round wood to be delivered to HS or the use of alternative means to demonstrate the traceability of the round wood (up to physical tracing).</li> <li>• For timber purchased from traders, HS shall impose – and ensure the fulfillment of – adequate purchasing routines including due diligence to the timber traders which it engages in business with.</li> <li>• When HS purchases other timber products (E.g. wood chips) due diligence must confirm legal origin of the round wood from which these products were derived.</li> <li>• HS should ensure external independent audits of suppliers are conducted in relation to the inventory of logs in wood storage sites along the supply chain to ensure the implementation of adequate purchasing routines to the timber traders which it engages in business with and the legality of the timber.</li> </ul>	<p data-bbox="1240 204 2027 363"><b>HS has a robust timber tracking system</b> in place which allows the tracking of the legal ownership of the entire quantity of round wood across its supply chains, from the forest to HS' mill gate of the primary processing site via unbroken chain of custody, and including any timber purchased from third parties.</p> <p data-bbox="1240 379 2027 437">Such timber tracking system has been verified by an independent third party, which has confirmed that such system:</p> <ul data-bbox="1240 453 2027 1067" style="list-style-type: none"> <li>-Is capable of effectively tracking the legal ownership of the entire quantity of round wood from the mill gate of the primary processing site to its origin via unbroken chain of custody in a reliable manner;</li> <li>-Ensures that any documentation related to the round wood's origin can be obtained by HS at any time upon request across its supply chain.</li> <li>-Ensures that the round wood entering HS' mills of the primary processing site has not been sourced from natural protected areas or other high conservation values;</li> <li>-Can ensure full traceability of the legal ownership of the round wood, minimizing the risks of illegal sources entering into its supply chains, and ensuring, as much as possible, that the round wood entering HS' supply chains has not been harvested/ purchased from illegal sources.</li> <li>- Includes adequate purchasing routines including due diligence imposed to traders which HS' engages in business with (in compliance with condition 1a.iv) for timber purchased from traders and assures the compliance by traders with the requirements of such purchasing routines.</li> <li>-Is in conformance with FSC condition 2a;</li> </ul> <p data-bbox="1240 1115 2027 1307">There is evidence available demonstrating that in those cases where a supplier has not been able to confirm the traceability of the legal ownership of all the round wood in its possession, HS has required the supplier either physical separation of the round wood or the use of alternative means to demonstrate the traceability of the round wood (up to physical tracing).</p>

<sup>6</sup> Primary processing is e.g. the sawmill that turns round wood into sawn goods, chips and saw dust. (Round wood turned into primary products).

#	FSC Condition for ending the disassociation with HS	Verification Indicator
		The results/ records of the independent audits to suppliers in relation to the inventory of logs in wood storage sites along the supply chain demonstrate that in those cases where non-compliances with the requirements of the purchasing routines have identified in relation to wood storage sites along the supply chain, effective measures have been taken to address and correct these.
2b	<p><b>2b. Verification of timber documentation</b></p> <p>A system must be put in place to ensure that all documents that are related to the traceability of legal ownership of round wood and other timber products (E.g. wood chip), including harvest, trade and transport, are consulted and randomly verified by an external independent auditor to have been issued by the relevant authorities. This system also includes verification of documents related to timber bought from third parties.</p> <ul style="list-style-type: none"> <li>• The basis for this system shall be the consultation and verification of all legally required documents - if publically available and/or available upon request- (e.g. in Romania including, but not limited to: APV inventory, SUMAL system documentation, harvesting permits, documents related to forest management plans and official information related to the properties on which forestry activities have been suspended by Romanian authorities (such as Forest Guards);</li> <li>• Verification shall be documented and a summary of the results shall be regularly published;</li> <li>• Random sampling auditing <sup>7</sup>shall be conducted to ensure that the above mentioned documents are in place.</li> </ul> <p><b>Note:</b> During the document verification process special attention shall be given to sanitary and salvage cuttings to ensure that such harvesting permits are not misused and that its issuance is in line with its purpose. Special attention should also be given during the verification of transportation documents for other timber products (E.g. wood chips).</p>	<p>HS has an appropriate and effective <b>system for the consultation and verification of documentation related to harvest, trade and transport</b> in place, which is implemented across all its operations, prior to any timber entering into its saw mills.</p> <p>Such system has been verified by an independent third party, which has confirmed that:</p> <ul style="list-style-type: none"> <li>-It provides a thorough verification of documentation related to harvest, trade and transport, ensuring that all legally required documents (including those listed under condition 2b) are in place and have been issued by the relevant authorities;</li> <li>- Documentation verification has been conducted by HS following this system, and a summary of the results of this verification have been published on a regular basis;</li> <li>-There is evidence demonstrating that HS conducts random sampling auditing to ensure that the documents listed under condition 2b are in place and are issued by the relevant authorities;</li> <li>- There is evidence demonstrating that non-compliances identified through HS' random sampling auditing of documentation have been addressed and corrected as needed.</li> </ul>

<sup>7</sup> The frequency of the random auditing and verification and publication of a summary of the auditing results will be determined by the risk management program, to be included as part of HS Action Plan.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	This verification system must be part of the risk management program (1b.iii) (in line with the scale, intensity and risk approach) and must address at least the following:	
2b.i	<p>i. The ownership of the land from which the trees are harvested is legally clarified or if under dispute in court, forestry activities have not been suspended by Romanian authorities at the time of harvesting;</p>	<p>-HS has a sourcing policy in place that clearly excludes sourcing and trading with material from forest land disputed in court.</p> <p>-HS undertakes independent legal reviews of its own forest lands.</p> <p>-HS engages with suppliers, authorities and stakeholders to identify potential land ownership court disputes across its supply chains.</p>
2b.ii	<p>ii. Forest management plans have all the necessary authorizations (including those issued by the necessary environmental authorities); and:</p> <ul style="list-style-type: none"> <li>For those areas classified as natural protected areas under the national legislation the fact that forest management plans are in agreement with the protected areas' management plan shall be officially acknowledged by the environment authorities (E.g. in Romania by the Environmental Protection Agency);</li> <li>HS shall not source or purchase round timber from those areas classified as non-harvesting areas by the legislation of the country (See note provided in 1a.ii);</li> </ul> <p><b>Note:</b> The verification of the documents mentioned in 2b.ii is based on the system implemented as part of 2b, based on the scale, intensity and risk approach and random sampling auditing.</p> <p><b>Note:</b> For Romania special attention should be given to the following:</p> <ul style="list-style-type: none"> <li>Non-harvesting areas zones as identified in the management plans of Natura 2000 sites and national and nature parks;</li> <li>Areas identified as <i>potential virgin forests</i> (Such as PIN- MATRA project<sup>8</sup>) with the prevention measures established by Ministerial Order no. 2525/2016<sup>9</sup>;</li> </ul>	<p>HS documentation verification system has been verified by an independent third party, which has confirmed that:</p> <p>-Such system mitigates the risk that all round wood entering into HS' operations is not sourced from forest land for which the related forest management plans do not have all the necessary authorizations (including those issued by the necessary environmental authorities).</p> <p>-Publicly available summary of the results from the documentation verification conducted by HS demonstrate that HS has consulted and verified that for those areas classified as natural protected areas under the national legislation the fact that forest management plans are in agreement with the protected areas' management plan has been officially acknowledged by the environment authorities (E.g. in Romania by the Environmental Protection Agency);</p> <p>Independent third party verification has confirmed that:</p> <p>-There is <u>no</u> substantial evidence that HS has sourced nor purchased round timber from those areas classified as non-harvesting areas by the legislation of the country (See note provided in 1a.ii);</p>

<sup>8</sup> PIN-MATRA project: <http://www.mmediu.ro/articol/proiect-pin-matra-padurile-virgine-din-romania/2068>

<sup>9</sup> Prevention measures for virgin forests established through the Ministerial Order no. 2525/2016, Art.11:

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<ul style="list-style-type: none"> <li>Areas identified as virgin forests according to MO 3397/2012 and included in the National Virgin Forests Catalogue after official approval of Romanian authorities.<sup>10</sup></li> </ul>	-There is evidence available demonstrating that prevention measures for virgin forests and potential virgin forests established by Ministerial Order no. 2525/2016 have been followed by HS.
<b>2c</b>	<p><b>2c. Correction of errors in timber documentation</b></p> <p>Timber volumes related to identified non-compliances, errors in the completion of paper forms and/or errors in the transport documentation must not be allowed to enter HS operations (and has to be stored separately and not be processed), until the identified errors are corrected and/or eliminated.</p> <ul style="list-style-type: none"> <li>A system must be put in place to identify and register these errors. As part of this system all identified errors shall be recorded, as well as the names of the individuals involved in correcting them. This recorded information shall be analyzed to improve its DDS, as well as to be considered in the risk assessment of its suppliers.</li> </ul>	<p>HS has an effective system to identify and register errors and non-compliances found in harvest and transport documentation and to correct such errors prior for timber volumes related to the errors to enter HS' operations:</p> <p>Such system has been verified by an independent third party, which has confirmed that:</p> <ul style="list-style-type: none"> <li>-Registers of the identified errors, and the names of individuals responsible for correcting them are available;</li> <li>-Records of the identified errors show that timber volumes related to the identified errors have not entered HS' operations (including any sawmill or log depot owned and/ or managed by HS), until the identified errors have been corrected and/or eliminated;</li> <li>-There is evidence demonstrating that the information related to the identified errors has been analyzed and used for the improvement of its DDS and to strengthen the risk assessment of its suppliers.</li> <li>-The system provides effective mitigation measures for those situations in which errors have been detected;</li> <li>-The system in place and is in full compliance with 2c.</li> </ul>
<b>2d</b>	<p><b>2d. Accounting of movement of wood materials</b></p> <p>The movement of all wood materials between entities inside HS' mills and between mills and associated entities will be correctly accounted for and correctly classified. Reports of these movements are kept and made available for random audits.</p>	-Documentation records (such as waybills, consumption bills and records mandatory under the applicable legislation) show that all wood materials between entities inside HS' mills and between mills and

*-In the forests identified according to PIN-MATRA project as virgin forests, silvicultural activities will be done only with approval from Romanian Forest Authorities (Forest Guard) and only after an official report (including site visit) which says that forest is not fulfilling the new criteria and indicators approved through Ministerial Order no. 3397/2012 as virgin forest.*

*-No authorisation for harvesting and reforestation will be issued if the Forest Guard Report confirm the presence of virgin forests according to the MO 3397/2012.*

<sup>10</sup> All the virgin and old growth forests identified according to (MO 3397/2012) are included in a National Virgin Forests Catalogue after official approval of Romanian authorities:  
<http://www.mmediu.ro/articol/prezentarea-catalogului-national-al-padurilor-virgine-si-cvasivirgine-din-romania/2069>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
		associated entities have been correctly accounted for and correctly classified.
2e	<p><b>2e. System for addressing stakeholder input</b></p> <p>HS has a system to welcome, receive, record and address stakeholder input provided by public, corporate and civil society stakeholders in relation to its operations and systems in a timely manner.</p>	<p><b>HS' system to welcome, receive and address stakeholder input in relation to its operations and systems</b> has been independently verified and confirmed to be in line with FSC values for stakeholder engagement by:</p> <ul style="list-style-type: none"> <li>○ Providing a public easily accessible platform through which stakeholders can provide input related to HS operations, without restrictions;</li> <li>○ Describing in a documented publically available procedure how stakeholder input is addressed (stakeholder engagement protocol);</li> <li>○ Considering, addressing and recording all stakeholder input received;</li> <li>○ Providing timely responses to stakeholders related to their concerns when needed;</li> <li>○ Ensuring that stakeholder input is considered, and integrated when appropriate, for the improvement of its overall systems and operations;</li> <li>○ Is in line with condition 1bi above.</li> </ul> <p>-Independent verification has confirmed that there is documented evidence demonstrating all the above.</p>
2fi	<p><b>2fi. Refraining from doing business with convicted entities</b></p> <p>HS stops (and keeps record of) doing business and communicates to its supply chains to refrain from doing business with any individual or company who has been convicted<sup>11</sup> for offences related to illegal timber trading and/or illegal harvesting</p>	<p>-HS has robust and effective system/procedures in place, which have been independently verified by a third party confirming that through such system/procedures HS (its affiliates or subsidiaries) consistently stop doing business with individuals/ companies/entities which have been convicted regardless of the place of residence or nationality for</p>

<sup>11</sup> The initial condition as proposed by the CP stated “HS avoids doing business with any individual or company who has been convicted or indicted for any offence...”, however “indicted” has been removed from the Conditions Framework, as ‘indictment’ is not a public phase of a criminal law procedure and there is therefore no publically available information concerning indictments in Romania.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<p>and/or fraud and/or corruption related to business with forest land, timber harvesting and trade, regardless of the place of residence or nationality.</p> <p>HS shall publish a list of all its suppliers, partners and organizations it engages in business with in the context of forest land, timber harvesting and trade. This list shall be updated on a quarterly basis.</p> <p><b>Note:</b> The decision to stop doing business with individuals or companies will be based on public information available such as the public portal provided by the Ministry of Justice of the country.</p>	<p>any offence related to illegal timber trading and/or illegal harvesting and/or fraud and/or corruption related to business with forest land, timber harvesting and trade.</p> <p>-Records of the implementation if this system/procedures confirm that there is evidence of cases in which HS has identified a risk of having a business association with an organization/ individual convicted in a relevant offence and has stopped all business relations with such individual/organization as a consequence.</p> <p>-There is evidence available demonstrating that in the above cases there has been a written communication from HS to its supply chains informing about its decision and requested to refrain to do business with the convicted individual/ organization.</p> <p>-An updated list of all companies/entities HS engages in business with, in the context of forest land, timber harvesting and trade is publically available.</p>
2f.ii	<p><b>2fii.</b> HS monitors and evaluates risks of doing business with its partners and considers suspension or termination of operations with those organizations or individuals sent to trial and/or court for offences related to illegal timber trading and/ or illegal harvesting and fraud and corruption related to business with forest land, timber harvesting and trade.</p> <p><b>Note:</b> In this risk evaluation HS shall consider stakeholder input provided when concluding whether to suspend business with business partners. HS shall publish a list of all its suppliers, partners and organizations it engages in business with in the context of forest land, timber harvesting and trade. This list shall be updated on a quarterly basis.</p>	<p>-Records of the implementation if this system/ procedure confirm that there is evidence of cases in which HS has evaluated the risk of having a business association with an organization/ individual sent to trial and/or court for any offence related to illegal timber trading and/ or illegal harvesting and fraud and corruption related to business with forest land, timber harvesting and trade, that HS has considered the suspension or termination of the operations with such individual/organization as a consequence.</p> <p>-An updated list of all companies/entities HS engages in business with, in the context of forest land, timber harvesting and trade, is publically available.</p>
2g	<p><b>2g. Internal auditing of DD and CoC systems</b></p> <p>HS reviews, as needed, its DDS and CoC systems to address the findings resulting from internal auditing of its systems. Records of the internal auditing conducted and of the revisions of its systems are duly kept.</p>	<p>-Documented records demonstrate that HS conducts internal auditing of its DD and CoC systems at least every six months, to evaluate and monitor its systems in terms of their effectiveness, appropriateness and compliance with all sub conditions under FSC condition 2;</p>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
		- Documented records demonstrate its DDS and CoC systems have been reviewed to address the findings resulting from internal auditing.
<b>2h</b>	<p><b>2h. External auditing of DDS and CoC systems</b></p> <p>HS' DD and CoC systems must be audited, at least on an annual basis, by an external independent entity. This external independent entity shall be free of conflict of interest*. Such audits shall:</p> <p><b>*Note:</b> Perceived conflicts of interest will not be considered as conflicts of interest, such as for example past auditing contracts with HS.</p>	<p>HS' DD and CoC systems are audited annually by an independent external entity (free of conflict of interest) to ensure the systems' compliance with all points under FSC condition 2. The result of such audit shall:</p> <ul style="list-style-type: none"> <li>- Be satisfactory (in terms of not having identified significant non-compliances in HS's systems in relation to FSC's Condition 2);</li> <li>- Demonstrate that input provided by stakeholders throughout the auditing process has been duly considered;</li> <li>- Made public in the form of a public summary, made available to relevant stakeholder, including the following information listed in 2h.ii.</li> </ul>
<b>2h.i</b>	<p><b>i.</b> Duly consider stakeholders' input during the auditing process (and keep record of it).</p>	
<b>2h.ii</b>	<p><b>ii.</b> Result in a public summary of the audit findings, which shall be shared with the relevant stakeholders, including (but not limited to) those involved in the process. The public summary shall include the following information:</p> <ul style="list-style-type: none"> <li>- The name of the auditor who conducted the audit;</li> <li>- The audit findings (including any identified non-compliances with conditions 2a -2g above);</li> <li>- Other relevant information.</li> </ul>	

#	FSC Condition for ending the disassociation with HS	Verification Indicator
<b>3</b>	<b>3. Independent legal land ownership review and compensation to the lawful land owners of illegal land restitution processes</b>	
<b>3.1</b>	<p><b>3.1 Independent legal land ownership review</b></p> <p>HS must put in place a system by which it conducts an independent review of all land in its possession at the time of the disassociation to verify that such land was indeed lawfully in possession or that the seller was legally entitled to sell such land at the time of the purchase.</p> <p>This system for independent legal land ownership review shall:</p> <ul style="list-style-type: none"> <li>• Involve a legal entity free of conflict of interest - and approved by FSC - to conduct the review of the land. FSC will consult with stakeholders through a public consultation to determine whether the proposed legal entity is appropriate/ free of conflict of interest;</li> <li>• Involve an observer to the legal review process which shall be appointed by FSC following consultation with stakeholders;</li> <li>• Duly consider stakeholder input;</li> <li>• Make a summary of the results of the legal review public and go through a public consultation process managed by HS (as well as duly consider the input provided by stakeholders during such consultation). Input provided by lawyers which have not been involved in the legal review directly shall also be considered.</li> <li>• A public summary of the results of the legal independent review shall be completed and published within 6 months from the date the final Conditions Framework has been approved by FSC BoD.</li> <li>• Legal review shall focus on the potential link between HS and direct beneficiaries of illegal land restitution processes as documented in court decisions, or other legal documents provided by stakeholders.</li> </ul>	<p>-HS presents to FSC the results of the independent legal land ownership review of all land in its possession at the time of the disassociation within 6 months from the date the final Conditions Framework has been approved by FSC BoD.</p> <p>-The independent legal land ownership review is in compliance of all sub points considered under condition 3.1;</p> <p>-There is demonstrated evidence that for the independent legal land ownership review conducted HS has:</p> <ul style="list-style-type: none"> <li>○ Received the approval by FSC of the legal entity appointed to conduct such review;</li> <li>○ No substantiated concerns were raised during the public consultation about potential conflict of interest of the appointed legal entity to conduct the independent land ownership review.</li> </ul> <p>-HS has published a summary of the results of the legal review and consulted such results through a transparent and structured stakeholder consultation (of a period of at least 30 days);</p> <p>-There is demonstrated evidence that HS has duly considered stakeholder input received during the consultation process related to the summary of the results of its legal review, and revised the final independent legal land ownership review according to such input prior to its submission to FSC, as needed.</p>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
3.2	<b>3.2 Returning the land and compensating the lawful land owners of illegal land restitution processes and/or for cases where the seller was not legally entitled to sell such land <u>in those cases where there is a final official decision by court concluding so</u><sup>12</sup></b>	
3.2.a	Based on the results of the independent legal land ownership review (required by condition 3.1) HS must: <ul style="list-style-type: none"> <li>a. <b>Bring the results of the independent legal land ownership review</b> (required by condition 3.1) <b>to the relevant Romanian authorities for the corresponding official legal investigation</b> by the authorities/court in those cases where the independent legal land review has identified any <u>potential</u> issues/ illegalities and/ or irregularities in relation to the process of purchase and ownership of land (in those cases where the findings relate to HS directly or indirectly);</li> </ul>	-There is a written confirmation by the relevant authorities that the results of the independent legal land ownership review have been brought to their attention by HS, and that any findings in such review which point to potential illegalities/ irregularities by HS will be investigated thorough the official court proceedings.
3.2.b	<ul style="list-style-type: none"> <li>b. In those cases where the independent legal land ownership review points to a potential involvement, direct or indirect, by HS in any illegality and/ or irregularity in the process of land purchase and ownership, or in cases where the “good faith” of HS’ purchase is concluded by the independent legal review to be questionable, <b>until the Romanian authorities come to a final court decision about the above</b> HS must: <ul style="list-style-type: none"> <li>• <b>Keep a separate accounting of all costs and revenues resulting from the land</b> which ownership/ legal purchase is dubious (starting from the day of purchase until the day when the final court decision is taken by the authorities).</li> </ul> </li> </ul>	-HS presents to FSC a clear, transparent and comprehensive accounting review of all the costs and revenues resulting which ownership/ legal purchase is dubious according to the legal review. This accounting review shall commence accounting from the day of the purchase, and shall be biannually revised and resubmitted to FSC, until the day when the final court decision is taken.

<sup>12</sup> **Note:** Considering the sale of forest land by HS in March 2018 and the implications this transaction might have in relation to the requirements under sub condition 3.2 regarding the return of land to its lawful owners – FSC keeps the right to require HS for *additional compensation measures*\* towards the lawful owners in the event that:

- a final court decision concludes HS’ involvement, direct or indirect, and in bad faith, in any illegal land restitution processes and/ or the purchase of any land for cases where the seller was not legally entitled to sell such land, and the final court ruling does **not** result in the return of the land to the lawful owners.

\*These *additional compensation measures* will be defined by FSC, and shall be proportionate to those requirements in the Conditions Framework not applicable due to the sale of land.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
3.2.c	<p>c. In those cases where <b>Romanian authorities have come to a <u>final court decision concluding HS involvement</u>, direct or indirect, and the bad faith related to its involvement in any illegal land restitution processes and/ or the purchase of any land for cases where the seller was not legally entitled to sell such land, HS must return and compensate the lawful owners</b> of any land that it has acquired through illegal land restitution processes and of the cases where the seller was not legally entitled to sell such land.</p> <ul style="list-style-type: none"> <li>• The <b>return of the land and <i>compensation</i>* must be done immediately after the results of the official final court decision</b> is taken.</li> </ul> <p><b>*Note:</b> The <i>compensation</i> must correspond to the compensation required by the competent courts/ authorities in Romania. In addition, in those cases where the compensation required by the Romanian courts is lower than the value of the timber that was extracted from the land from the moment the dubious purchase of the land took place until the day the competent courts/ authorities in Romania have come to the final decision, HS must also provide the lawful owner with a compensation equivalent to the difference between the value of the timber that was extracted from such land during the above mentioned period and the compensation required by the competent courts/ authorities.</p> <ul style="list-style-type: none"> <li>• <b>Until the formal process to return the land to the lawful owners is completed, HS shall suspend any harvesting</b> from such land.</li> <li>• <b>Until the formal process to return the land to the lawful owners is completed,</b> HS shall <b>pay for an additional compensation to the lawful owners</b> of any land which has been concluded by the final court decision to have been acquired by HS in bad faith through illegal land restitution processes and/or from sellers which were not legally entitled to sell such land. The additional compensation to be paid will correspond with the value of the trees harvested from the mentioned land (from the moment the official final court decision is taken until the day the process of returning the land is concluded). This additional</li> </ul>	<p>HS presents to FSC immediately after the final court case decision is taken:</p> <ul style="list-style-type: none"> <li>- Demonstrated evidence that <i>compensation</i>* of the lawful owners of any land that it has acquired through illegal land restitution processes and of the cases where the seller was not legally entitled to sell such land has been conducted (and such compensation is in compliance with all points under condition 3.2) (E.g. financial transfer confirmation);</li> <li>- Demonstrated evidence that HS has suspended any harvesting from the affected lands, until the formal process of returning the land to the lawful owners is completed;</li> <li>- Demonstrated evidence that HS has provided biannually an <b>additional compensation</b> to the lawful owners of the land (starting from the moment the official final court decision is taken until the process to returning the land is completed. (E.g. financial transfer confirmation or statement).</li> </ul>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	compensation shall be provided to the lawful owners biannually, until the day the mentioned process is completed.	
<b>3.2.d</b>	<b>d.</b> HS must compensate the lawful owners of any land that it has acquired through illegal land restitution processes and of the cases where the seller was not legally entitled to sell such land. <b>If such land is found to be State land then HS must:</b>	
<b>3.2.e.i</b>	<b>e. i.</b> Return such land to the Romanian State and;	HS presents to FSC immediately after final court case decision is taken: - Demonstrated evidence that compensation and returning of the Romanian State has been conducted in all cases where the lawful owner was found to be the State (and such compensation is in compliance with all points under condition 3.2.e.;
<b>3.2.e.ii</b>	<b>e. ii.</b> Compensate the Romanian State for the value of any trees harvested from the illegally restituted land.	
<b>3.2.e.iii</b>	<b>e. iii.</b> Suspend any harvesting from the affected lands, until the formal process of returning the land and compensating to the Romanian State is completed.	-Demonstrated evidence that HS has suspended any harvesting from the affected lands, until the formal process of returning the land to the Romanian State is completed.
<b>4</b>	<b>4. Contribution to Social and Environmental projects promoting responsible development of forests and forest based communities in Romania</b>  HS must make appropriate environmental and social projects promoting responsible development of Romanian forests and benefiting the forest based communities in Romania in a form of an independent fund.  The projects resulting from this fund shall focus on social support for deprived communities in particular those located in the areas where HS operates and sources timber from in Romania and on environmental and biodiversity maintenance and/or restoration activities in forests in Romania.	
<b>4a</b>	<b>4a. Establishment of financial set up for the independent fund</b>  HS must propose an organizational and financial setup to FSC to ensure the efficient/effective use of this fund for the implementation of environmental and social projects promoting responsible development of forests and forest based communities in Romania.  The setup of the fund must:	HS proposes an organizational and financial setup for an independent fund for the implementation of environmental and social projects promoting responsible development of forests and forest based communities in Romania.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<ul style="list-style-type: none"> <li>○ Ensure the independent management of the fund (free of direct or indirect influence of HS, its affiliates and subsidiaries);</li> <li>○ Be directed by a Board of Directors (which shall be a stakeholder based body) which shall keep oversight of the management of the fund. The Board shall conduct independent evaluation of project proposals, to ensure a transparent use of resources and selection of projects.</li> <li>○ Be administered by HS itself;</li> <li>○ Be nonprofit oriented, having high management efficiency with minimum overhead;</li> <li>○ Ensure that the usage of the fund is transparent, acting in a non-discriminatory manner, and involving social and environmental NGOs;</li> <li>○ Assure a transparent selection of projects duly considering stakeholder input;</li> <li>○ Assure the public disclosure of selection criteria and the results of selection used for the selection of such projects;</li> <li>○ Assure the public disclosure of the results of the implementation of projects;</li> </ul> <p>The projects implemented as a result of this fund should prioritize:</p> <ul style="list-style-type: none"> <li>- Social support for deprived communities in particular those located in the areas where HS operates and sources timber from in Romania;</li> <li>- Restoration activities in forests in Romania;</li> <li>- Appropriate waste management systems to prevent forests being littered and clean up contaminated forest areas;</li> <li>- Environmental and biodiversity maintenance;</li> <li>- Dialogue platforms to promote stakeholder discussions about forest related topics; and</li> <li>- Other relevant issues identified.</li> </ul>	<p>The setup of the independent fund proposed by HS, has been assessed by an independent third party, which has confirmed that such setup ensures:</p> <ul style="list-style-type: none"> <li>- The independent management of the fund (free of conflict of interest);</li> <li>- The transparency of the use of the fund, by acting in a non-discriminatory manner, and providing ample opportunities for engagement to social and environmental NGOs for the definition of project;</li> <li>- A transparent selection of projects.</li> </ul> <p>-No substantiated concerns about the independent fund setup proposed by HS have been raised by stakeholders.</p> <p>HS has set up an independent fund for the implementation of a set of appropriate social and environmental projects to promoting responsible development of Romanian forests and benefiting the forest based communities in Romania (and provided demonstrated evidence that it has done so).</p> <p>Independent verification has confirmed that the projects resulting from such independent fund:</p> <ul style="list-style-type: none"> <li>-Have been included as part of HS' Action Plan and clear and transparent opportunities for engagement have been provided to all the relevant stakeholders to provide input in relation to the projects, and such input has been duly considered (in compliance with condition 1bi and 4a)</li> <li>-Are in full compliance with FSC condition 4;</li> </ul>
4b	<b>4b. Public communication about progress of projects resulting from the fund</b>	Detailed information related to the progress and completion of the implementation of each the environmental and social projects is published on HS website in the form of progress reports. Such reports

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	HS must publish on its website information/ reports about the ongoing and accomplished projects implemented to promote responsible development of forests and forest based communities in Romania.	are published on a quarterly basis starting from the date in which the first selection of projects is concluded by the fund.
<b>4c</b>	<b>4c. Initial contribution to the fund</b> HS must provide with an initial contribution to the Independent Fund, corresponding with the below amount: <ul style="list-style-type: none"> <li>• 700.000 Euros</li> </ul>	-HS presents to FSC a financial statement demonstrating that HS has conducted the initial contribution to the Independent Fund following the requirements under sub condition 4c.
<b>4d</b>	<b>4d. Continuous contribution to the fund</b> After the initial contribution to the Independent Fund is made by HS, HS must continue providing an annual contribution to the Independent Fund of 400.000 Euros <sup>13</sup> .  Contributions to the Independent Fund must be provided by HS for a period of ten years.	-HS presents to FSC a financial statement annually for the next ten years, demonstrating its continuous contribution to the independent fund in compliance with 4d.
<b>5</b>	<b>5. Compensation for damages for which there has been a proven causality in Romania</b> In those cases where there is a proven direct or indirect vicarious liability of <i>causality of damages caused by HS to any stakeholder</i> <sup>14</sup> , and following the commitments in HS's public declaration published on December 2016, HS must: <sup>15</sup> <ul style="list-style-type: none"> <li>• Engage in a dialogue in the form of mediation to seek for a settlement of disputes with all parties which provide substantial evidence of damages caused by operations by HS which they claim compensation for.</li> </ul> <p>If the dispute is not settled through the mediation efforts, the case shall be managed by Romanian courts.</p>	-There is evidence demonstrating that in all cases where proven direct or indirect vicarious liability of causality has been found of the damages caused to stakeholders by HS' operations that HS has entered into mediation efforts by engaging an external mediator seeking the settlement of disputes.  - HS provides FSC with demonstrated evidence that it has offered a mediation opportunity to all those stakeholders which have provided substantial evidence for the damages caused according to requirements under condition 5.

<sup>13</sup> **Note:** The values of the 'initial' and 'continuous' contributions to the Independent Fund requested by FSC to HS in sub conditions 4c and 4d have been defined by FSC following an expert consultation, as well as a detailed legal assessment conducted on the case.

<sup>14</sup> **Note:** This condition applies to those damages which have not been or will be compensated as a result of the implementation of Condition 3 of the FSC Conditions Framework.

<sup>15</sup> [https://www.schweighofer.at/fileadmin/files/all\\_ro/Press\\_ro/Press-release-FSC-probation-1.pdf](https://www.schweighofer.at/fileadmin/files/all_ro/Press_ro/Press-release-FSC-probation-1.pdf)

#	FSC Condition for ending the disassociation with HS	Verification Indicator
		-HS provides FSC with demonstrated evidence of its notification to Romanian authorities and request for legal investigation by official courts, of all disputes which have not been successfully resolved by mediation efforts.
6	<b>6. Additional Trust Building Measures</b>	
6.1	<p><b>Refraining from producing communications about the roadmap process for promotional purposes</b></p> <p>HS must refrain from publishing communications material (e.g. press releases, social media posts, etc.) in relation to the roadmap process for promotional purposes - beyond what is communicated by FSC – without previously consulting with and obtaining approval from FSC.</p> <p><b>Note:</b> FSC shall base its approval decision of the proposed communications material by HS, on whether such material is in line with the requirements stipulated in the <i>FSC Communications Protocol for Schweighofer</i><sup>16</sup>.</p>	E.g. HS' communications material related to the roadmap process is in line with the requirements stipulated in the <i>FSC Communications Protocol for Schweighofer</i> .
7	<p><b>7. Compensation of PfA Investigation Costs to FSC</b></p> <ul style="list-style-type: none"> <li>i. HS must reimburse FSC for all external costs incurred by FSC in connection with the work conducted in 2016 in the context of the complaints panel evaluation of the Policy for Association complaint filed with FSC by WWF Germany against HS.</li> <li>ii. HS must reimburse FSC for all external costs incurred by FSC in connection with the work to be conducted in 2017 as part of the new Policy for Association investigation of HS, as required by FSC.</li> <li>iii. HS (and FSC) shall publish a detailed overview of the external costs to be reimbursed to FSC by HS, following 7i and 7ii above.</li> </ul>	<p>FSC is timely reimbursed for all external costs incurred by FSC in connection with the work conducted in 2016 in the context of the complaints panel evaluation of the Policy for Association complaint filed with FSC by WWF Germany against HS (and in connection with the work to be conducted in 2017 as part of the new Policy for Association investigation of HS, as required by FSC).</p> <p>A transparent and detailed overview of the above mentioned costs is published in HS' and FSC's respective websites.</p>

<sup>16</sup> *FSC Communications Protocol for Schweighofer* is an internal FSC agreed between FSC and HS.

## Minimum threshold of compliance with the FSC Conditions Framework

FSC will only consider ending the disassociation from HS Group once:

- HS presents to FSC an **Action Plan** describing the measures it will put in place in order to fulfill the requirement of the FSC Conditions Framework (being such measures in line with the requirements in the FSC Conditions Framework);
- Independent verification has confirmed that there is evidence that demonstrates that HS has **fully complied with:**
  - **Condition 1;**
  - **Condition 2;**
  - **Sub condition 3.1;**
  - **Sub conditions 4a and 4c;**
  - **Conditions 6 and 7;**
- **HS has expressed its commitment** to implement the necessary measures following its Action Plan in order to **ensure the compliance with all other conditions and sub conditions**, including an explicit commitment to continue providing contributions to the independent fund for the implementation of environmental and social projects, as stipulated in sub condition 4d.