



Forest Stewardship Council®



FSC Conditions Framework for the Schweighofer Group

**Consultation draft by Stakeholder Working
Group- Roadmap process**

May 2017

FSC 'Conditions Framework' for the Schweighofer Group - Consultation draft by the Stakeholder Working Group

– FSC Roadmap process –

In February 2017, FSC disassociated from the Schweighofer Group (HS)¹. The decision was based on the findings by the complaints panel² 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 is currently under investigation under FSC's Policy for Association (PfA)³ by FSC.

This document constitutes the **consultation draft of the FSC 'Conditions Framework'** for HS developed by the Stakeholder Working Group (SWG) as part of the FSC roadmap process towards ending the disassociation.

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 will be involved in the development of the Conditions Framework, the role of the SWG and the overall roadmap process for HS, see "[FSC Stakeholder Engagement Plan for the Schweighofer Group roadmap process](#)". (Annex 1)

This consultation draft of the 'Conditions Framework' has been developed using as basis the 'Conditions for Re-association' (Annex 2) proposed by the complaints panel.

This consultation draft of the FSC 'Conditions Framework' is the main output of the first meeting of the Stakeholder Working Group held in Bucharest on the 3 and 4 of May 2017. The main role of the SWG is to develop a proposed final 'Conditions Framework' considering the input received from stakeholders in the process. **This consultation draft of the FSC Conditions Framework developed by the SWG will be published for public consultation for a period of 30 days, starting on the 23 May 2017. FSC encourages all stakeholders to provide input during the public consultation period.** An overview of the main changes between the initial draft and the consultation draft of the FSC 'Conditions Framework' is also provided in Annex 3.

Table 1 below provides the consultation draft of the FSC 'Conditions Framework' developed by the SWG. The first column lists the SWG's proposal of the conditions to be fulfilled by HS in order for FSC to end the disassociation. The second column proposes a series of examples of Verification Indicators to be used by an independent third party, to determine whether HS is in compliance with the required conditions.

¹ 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>

² The public version of the complaints panel evaluation report is available online at: <https://ic-beta-2016.fsc.org/download.public-version-of-the-complaints-panel-evaluation-report-oct-2016.6426.htm>

³ 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>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
1	<p>1. Corporate Social Responsibility</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>a. Corporate Social Governance</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 and suppliers. HS must also employ a full time dedicated CSR policy officer who will focus solely in the implementation, control and modification of the CSR policy without interference by top management of HS.</p> <p>Elements 1a.i – 1a.iv below (and others that may be considered necessary) shall be covered by such organizational rules.</p>	
1.a.i	<p>i. Anticorruption and Integrity Policy for the HS group (including its subsidiaries and affiliates).</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) and supply chains expressly committing (but not limited to) the following:</p> <ul style="list-style-type: none"> ○ Avoiding its direct or indirect involvement in corrupt, fraudulent, coercive, collusive, abusive and obstructive practices, as well as its involvement in any other violation including failure to adhere to the highest ethical standards; ○ Avoiding its direct and indirect involvement any conflict of interest (by avoiding any situation in which HS could improperly influence a party's performance of official duties or responsibilities, contractual obligations, or compliance with applicable laws and regulations for its business benefit); ○ Avoiding its direct and indirect involvement in any of the unacceptable activities as defined by FSC Policy for Association (FSC-POL-01-004); ○ Investigating and addressing any case in which risks of being involved in any of the above is identified/ brought to their attention. 	<p>E.g. Independent verification confirms:</p> <ul style="list-style-type: none"> - That HS' CSR policy document has been publicized, in all three languages: English, Romanian and German, by 1 August 2017; - That an effective Anticorruption and Integrity Policy (and the necessary mechanisms for its implementation) applicable across HS' operations and supply chains is in place and publically available in English, Romanian and German on their Website and in printed form; - The compliance by employees and suppliers with such policy and its mechanisms is enforced and controlled; - 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. Any findings regardless of their outcome are publicized within five working days after they have been brought to the attention of the CSP policy officer.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<ul style="list-style-type: none"> - 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; - HS' Anticorruption and Integrity Policy is regularly revised and improved (and stakeholder input is considered in such revision); - HS' conducts periodic audits to its employees and suppliers to ensure their fulfillment of the commitments described in the Anticorruption and Integrity Policy and the related mechanisms (and results of such audits are recorded); 	<p>- That stakeholder input provided related to its Anticorruption and Integrity Policy and mechanisms is duly considered by HS for their revision.</p> <p>FSC reserves the right to verify the existing of the personnel and auditing 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 no later than one week after the completion of the audit.</p>
1.a.ii	<p>ii. Public Timber Sourcing Policy</p> <p>HS must put in place and publish a Timber Sourcing Policy:</p> <ul style="list-style-type: none"> • Committing to securing the sustainable and responsible sourcing of its timber needs across the entirety of its business; and • Providing an explicit statement on the exclusion of illegal timber from its supply chains as being its express responsibility. • Providing an explicit statement on the exclusion of sourcing or purchasing round timber from those areas classified as strictly protected nature reserves, classified Virgin-Forests meeting the Carpathian Convention Definition and non-intervention zones as defined in the management plans of Natura 2000 sites. 	<p>-E.g. 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 illegal timber from its supply chains as being its express responsibility, and including an explicit statement on the exclusion of sourcing or purchasing round timber from those areas classified as strictly protected nature reserves, classified Virgin-Forests meeting the Carpathian Convention Definition and non-intervention zones as defined in the management plans of Natura 2000 sites.</p>
1.a.iii	<p>iii. <u>Internal</u> Procedure for Purchasing Routines</p> <ul style="list-style-type: none"> • 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 appropriate business behavior by its employees and subcontractors or employees of subcontractors or any other person working on behalf of HS; (E.g. Employees are not incentivized to violate internal purchasing rules/ manipulate information in their own personal benefit, such as to obtain bonuses for timber volumes). • Requirements related to the internal purchasing routines must be openly communicated to employees (by stating these requirements in the written contracts between HS and its employees); 	<p>E.g. Independent verification confirms that:</p> <ul style="list-style-type: none"> - Effective Internal Procedures for Purchasing Routines are in place and included in the company's compliance documents; - Employees have been clearly informed annually about the establishment of the Internal Procedures for Purchasing Routines and trained about the relevance of ethical business behavior and their responsibility to comply with such Internal Procedures for Purchasing Routines. All employees acknowledge this information in writing.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<ul style="list-style-type: none"> 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). 	<ul style="list-style-type: none"> Written contracts between HS and its employees state the requirements related to Internal Procedures for Purchasing Routines that shall be complied with by employees; 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; 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. Any case of non-compliance is made public via HS' website after the legal department as deemed the publication of such information legally possible.
1.a.iv	<p>iv. <u>External</u> Procedure for Purchasing Routines</p> <ul style="list-style-type: none"> HS must define and put in place clear <u>external</u> procedures for purchasing routines and include them in the company's compliance documents, establishing requirements aiming to promote the appropriate business behavior by its suppliers 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.); Requirements related to the external purchasing routines must be openly communicated to suppliers (by stating these requirements in the written contracts between HS and its suppliers) and further down in the supply chain; Suppliers must commit to deliver documents related to the legality and origin of the round wood in all cases; All documents must be stored; Suppliers must accept external audits conducted in relation to business with HS (and records of the results of such audits shall be kept). 	<p>E.g. Independent verification confirms that:</p> <ul style="list-style-type: none"> Effective External Procedures for Purchasing Routines are in place and included in the company's compliance documents; Suppliers have been clearly informed about the establishment of the External Procedures for Purchasing Routines and trained about the relevance of ethical business behavior and their responsibility to comply with such External Procedures for Purchasing Routines; Written contracts between HS and its suppliers state the requirements related to External Procedures for Purchasing Routines that shall be complied with by its suppliers; Periodic external auditing is conducted to assess suppliers' compliance with External Procedures for Purchasing Routines;

#	FSC Condition for ending the disassociation with HS	Verification Indicator
		<ul style="list-style-type: none"> - Effective and timely measures are applied to address and correct any noncompliance identified during the auditing of suppliers' compliance with the External Procedures for Purchasing Routines.
1b	<p>b. Corporate Social Responsibility</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 2018 for the financial year 2017.</p> <p>This CSR system shall include:</p>	
1b.i	<p>i. A CSR guiding document (available in Romanian, English and German) covering the following aspects:</p> <ul style="list-style-type: none"> • Public Timber Sourcing Policy and commitment to have the appropriate internal purchasing routines to ensure the fulfillment of conditions 1.a.ii and 1.a.iii above; • Stakeholder Engagement <ul style="list-style-type: none"> - HS must provide clear and transparent opportunities to all the relevant national and international stakeholders for their engagement in the development of HS' final Action Plan to be presented to FSC (and for providing input about its overall operations); - 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; - HS' Action Plan must be made publically available. 	<p>E.g. 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 2018 for the financial year 2017.</p> <p>Such timber CRS system has been verified by an independent third party, which has confirmed that:</p> <p>-A CSR guiding document has been published in all three languages: Romanian, English and German;</p> <p>-The CRS guiding document covers all the aspects required under condition 1b.i;</p> <p>-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.</p> <p>- The implementation of HS' stakeholder engagement protocol as described under its CSR guiding ensures that:</p> <ul style="list-style-type: none"> • clear and transparent opportunities are provided to all the relevant stakeholders for their engagement in the development

#	FSC Condition for ending the disassociation with HS	Verification Indicator
		<p>of HS' final Action Plan to be presented to FSC (as well as to provide feedback about other issues related to HS' overall operations);</p> <ul style="list-style-type: none"> 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; Stakeholder engagement expectations are satisfactorily met.
1b.ii	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>E.g. Independent verification confirms that:</p> <ul style="list-style-type: none"> 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; 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.
1b.iii	iii. A Risk Management Program covering all its suppliers and sources. Records of the implementation and results of the risk analysis of this program are kept and stored for a minimum of seven years.	<p>E.g. Independent verification confirms that:</p> <ul style="list-style-type: none"> HS has an effective Risk Management Program covering all its suppliers and sources, which is included as part of its Corporate Social Responsibility (CSR) system; 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.
1b.iv	iv. Corporate communications offering a platform for stakeholder information and engagement, including publically information requested in the above and below conditions.	<p>E.g. HS has a publically available and easily accessible communications platform which:</p> <ul style="list-style-type: none"> Provides information about its: CRS strategy and activities (included in its CRS guiding document), stakeholder engagement protocol, Action Plan, Timber Sourcing Policy, results of the documentation verification,

#	FSC Condition for ending the disassociation with HS	Verification Indicator
		<p>public summary of the results of the external audits conducted to its DDS and CoC systems, results of the legal land ownership review and quarterly progress reports on the implementation of the environmental and social projects.</p> <ul style="list-style-type: none"> - Provides a communications channels to receive and address stakeholder input (in compliance with 1b.i) - Satisfies stakeholder expectations in terms of information published, transparency and opportunities to provide feedback.
2	<p>2. Strengthening of its Due Diligence and Chain of Custody Systems</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 sources* and avoid HS' direct and/or indirect involvement in any form of illegality in its forestry and timber trade operations.</p> <p>Elements a - h below (and others that may be considered necessary) will be ensured through the implementation of such DD and CoC systems.</p>	<p>*Note: HS is processing timber in Romania from Belorussia and other areas.</p>
2a	<p>a. Ownership of all round wood can be traced from the forest stand to the mill gate of the primary processing site via unbroken chain of custody, including any timber purchased from third parties. Documentation related to the round wood's origin can be obtained upon request across its supply chain.</p> <ul style="list-style-type: none"> • For timber purchased from log yards, HS shall impose – and ensure the fulfillment of – adequate purchasing routines to the timber traders which it engages in business with. 	<p>E.g. HS has a robust timber tracking system in place which allows the tracking of all round wood across its supply chains, from the forest to the mill gate of the primary processing site via unbroken chain of custody, and including any timber purchased from third parties.</p> <p>Such timber tracking system has been verified by an independent third party, which has confirmed that such system:</p> <ul style="list-style-type: none"> -Is capable of effectively tracking round wood from the mill gate of the primary processing site to its origin via unbroken chain of custody in a reliable manner; -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. -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; -Can ensure full traceability of round wood, minimizing the risks of illegal sources entering into its supply chains, and ensuring, as much as

#	FSC Condition for ending the disassociation with HS	Verification Indicator
		<p>possible, that the round wood entering HS' supply chains has not been harvested/ purchased from illegal sources.</p> <p>- Includes adequate purchasing routines imposed to traders which HS' engages in business with (in compliance with condition 1a.iv) for timber purchased from log yards and assures the compliance by traders with the requirements of such purchasing routines.</p> <p>-Is in conformance with FSC condition 2a;</p>
2b	<p>b. A system must be put in place to ensure that all documents that are related to harvest and transport are consulted and randomly verified by an external independent auditor to have been legally 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"> The basis for this system shall be the consultation and verification of all legally required documents (Including, but not limited to: APV inventory, SUMAL system documentation, harvesting and sanitary 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); Verification shall be documented and the results shall be regularly published; Random sampling auditing shall be conducted to ensure that the above mentioned documents are in place. <p>Note: During the document verification process special attention shall be given to sanitary and salvage harvests permits to ensure that such permits are not misused and that its issuance is in line with its purpose.</p> <p>This verification system must ensure that:</p>	<p>E.g. HS has an appropriate and effective system for the consultation and verification of documentation related to harvest and transport 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"> -It provides a thorough verification of documentation related to harvest and transport, ensuring that all legally required documents (including those listed under condition 2b) are in place and have been legally issued by the relevant authorities; - Documentation verification has been conducted by HS following this system, and the results of this verification have been published on a regular basis; -There is evidence demonstrating that HS conducts random sampling auditing to ensure that the documents listed under condition 2b are in place and are legally issued by the relevant authorities; - There is evidence demonstrating that non compliances identified through HS' random sampling auditing of documentation have been addressed and corrected as needed.
2b.i	<p>i. The ownership of the land from which the trees are harvested is legally clarified and not disputed in court;</p>	<p>E.g.</p> <ul style="list-style-type: none"> -HS has a sourcing policy in place that clearly excludes sourcing and trading with material from forest land disputed in court.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
		<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. All forest management plans have been developed in accordance with all legal requirements (including the necessary environmental authorizations); and:</p> <ul style="list-style-type: none"> For those areas classified as natural protected areas under the Romanian legislation a verification of documentation shall be conducted to ensure that the forest management plans are in agreement with the protected areas' management plan and that the relevant custodian has agreed so; HS shall not source or purchase round timber from those areas classified as strictly protected nature reserves, classified Virgin-Forests meeting the Carpathian Convention Definition ⁴and non-intervention zones as defined in the management plans of Natura 2000 sites; For those areas identified in 2004 as <i>virgin forests</i> according to PIN- MATRA project⁵ the prevention measures established by Ministerial Order no. 2525/2016 shall be followed;⁶ HS shall refrain from sourcing or purchasing round timber from the areas identified as <i>virgin forests</i> according to MO 3397/2012 which are included in a National Virgin Forests Catalogue after official approval of Romanian authorities;⁷ 	<p>E.g. HS documentation verification system has been verified by an independent third party, which has confirmed that:</p> <p>-Such system ensures that all timber entering into HS' operations is sourced from forest land for which the related forest management plans are in full compliance with all legal requirements (including the necessary environmental authorizations).</p> <p>-Publicly available 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 Romanian legislation the forest management plans are in agreement with the protected areas' management plan and that the relevant custodian has agreed so.</p> <p>Independent third party verification has confirmed that:</p> <p>- A "Zero Timber from National Parks Policy" is in place and published in all three languages: English, Romanian and German.</p> <p>-There is <u>no</u> substantial evidence that HS has sourced nor purchased round timber from those areas classified as strictly protected nature reserves, classified Virgin-Forests meeting the Carpathian Convention</p>

⁴ The SWG will further research to determine whether Virgin-Forests should be defined according to the Carpathian Convention Definition, or according to the definition under Romanian legislation (Ministerial Order no. 3397/2012): <http://apepaduri.gov.ro/wp-content/uploads/2014/08/OM-3397-din-2012-paduri-virgine.pdf>

⁵ PIN-MATRA project: <http://www.mmediu.ro/articol/proiect-pin-matra-padurile-virgine-din-romania/2068>

⁶ Prevention measures for virgin forests established through the Ministerial Order no. 2525/2016, Art.11:

-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.

⁷ 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
	<ul style="list-style-type: none"> For those areas identified in 2004 as <i>potential virgin forests</i> according to PIN-MATRA project the prevention measures established by Ministerial Order no. 2525/2016 shall be followed;⁸ HS shall clearly define, implement and publish a “Zero Timber from National Parks Policy”. 	<p>Definition and non-intervention zones as defined in the management plans of Natura 2000 sites;</p> <p>-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.</p>
2c	<p>c. Timber volumes related to identified non-compliances, errors in the completion of paper forms and/or errors in the information entered into the SUMAL system must not be allowed to enter HS operations (including any sawmill or log depot owned and/ or managed by HS), until the identified errors are corrected and eliminated.</p> <ul style="list-style-type: none"> 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. 	<p>E.g. HS has effective system to identify and register errors and non-compliances found in harvest and transport documentation and in information entered into the SUMAL system, 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> <p>-Registers of the identified errors, and the names of individuals responsible for correcting them are available;</p> <p>-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 eliminated;</p> <p>-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.</p> <p>-The system provides effective mitigation measures for those situations in which errors have been detected;</p> <p>-Minimizes the risks that errors entered into the SUMAL system result in timber volumes categorized as illegal timber;</p> <p>-The system in place and is in full compliance with 2c.</p>

⁸ Prevention measures for potential virgin forests established through the Ministerial Order no. 2525/2016, Art.6:

-Forest Guard acknowledge in written with confirmation at latest in 5 days, forest owners and managers (FMU), but also the logging companies (if the case) about the receiving and presence of the technical study.
-Starting with the point from above, in this case it is totally forbidden any silvicultural activity (logging, reforestation) by owners/managers/companies in the forest which are under the subject of potential virgin forests through the technical study.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
2d	d. The movement of all 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.	E.g. -Documentation records (such as waybills) show that all materials between entities inside HS' mills and between mills and associated entities have been correctly accounted for and correctly classified.
2e	e. 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>E.g. HS system to welcome, receive and address stakeholder input in relation to its operations and systems has been independently verified and confirmed to be in line with FSC values for stakeholder engagement by:</p> <ul style="list-style-type: none"> ○ Providing a public easily accessible platform through which stakeholders can provide input related to its operations, without restrictions; ○ Describing in a documented publically available procedure how stakeholder input is addressed (stakeholder engagement protocol); ○ Considering, addressing and recording all stakeholder input received; ○ Providing timely responses to stakeholders related to their concerns when needed; ○ Ensuring that stakeholder input is considered, and integrated when appropriate, for the improvement of its overall systems and operations; ○ Is in line with condition 1bi above, <p>-Independent verification has confirmed that there is documented evidence demonstrating all the above.</p>
2f	f. HS stops (and keeps record of) doing business with any individual or company who has been:	

#	FSC Condition for ending the disassociation with HS	Verification Indicator
2f.i	<p>i. Convicted⁹ regardless of the place of residence or nationality for any offence in the European Union related to HS' business activities and/or the business activities by its affiliates or subsidiaries.</p> <p>E.g. HS must stop doing business with any individual or company convicted regardless of the place of residence or nationality for any offence in the European Union related to illegal timber trading and/ or illegal harvesting.</p>	<p>E.g.</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 any offence in the European Union related to HS' business activities and/or the business activities by its affiliates or subsidiaries.</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 an offence and has stopped all business relations with such individual/organization as a consequence.</p>
2f.ii	<p>ii. Suspends operations with organizations or individuals regardless of the place of residence or nationality sent to trial and/or court for any offence in the European Union related to HS' business activities or the business activities of its affiliates or subsidiaries.</p>	<p>E.g. Records of the implementation if this system/ procedure confirm that there is evidence of cases in which HS has identified a risk of having a business association with an organization/ individual sent to trial and/or court for any offence related to HS' business activities, and that HS has suspended operations with such individual/organization as a consequence.</p>
2g	<p>g. HS periodically reviews 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>E.g.</p> <p>-Documented records demonstrate that HS conducts periodical 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> <p>- Documented records demonstrate its DDS and CoC systems have been reviewed to address the findings resulting from internal auditing.</p>

⁹ 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 proposed consultation draft of Conditions Framework, following the concerns raised by HS indicating that avoiding business with individuals and/or companies indicted for offences is not fully feasible at this stage, as 'indictment' is not a public phase of a criminal law procedure and there is therefore no publically available information concerning indictments in Romania. The Schweighofer Group cannot verify that it does not engage in business with parties involved in indictments, as there is no public official information of this. The company has therefore requested FSC to revise the wording for this condition. Legal advice has confirmed this is the case.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
2h	<p>h. HS' DD and CoC systems must be periodically audited by an independent entity. This independent entity shall be free of conflict of interest*. Such audits shall:</p> <p>*Note: Perceived conflicts of interest will not be considered as conflicts of interest, such as for example past auditing contracts with HS.</p>	<p>E.g. HS' DD and CoC systems are audited annually by an independent third party (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"> - Be satisfactory (in terms of not having identified significant non compliances in HS's systems in relation to FSC's Condition 2); - Demonstrate that input provided by stakeholders throughout the auditing process has been duly considered; - Made public in the form of a public summary, made available to relevant stakeholder, including the following information listed in 2h.ii):
2h.i	<p>i. Duly consider stakeholders' input during the auditing process (and keep record of it).</p>	
2h.ii	<p>ii. 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"> - The name of the auditor who conducted the audit; - The audit findings (including any identified non compliances with conditions 2a - 2g above); - Other relevant information. 	
3	3. Independent legal land ownership review and compensation to the lawful land owners of illegal land restitution processes	

#	FSC Condition for ending the disassociation with HS	Verification Indicator
3.1	<p>3.1 Independent legal land ownership review</p> <p>HS must put in place a system by which it conducts an independent review of all land in its possession 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"> • 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; • Involve an observer to the legal review process which shall be appointed by FSC following consultation with stakeholders; • Duly consider stakeholder input; • Make 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. • 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. 	<p>E.g.</p> <ul style="list-style-type: none"> -HS presents to FSC the results of the independent legal land ownership review of all land in its possession within 6 months from the date the final Conditions Framework has been approved by FSC BoD. -The independent legal land ownership review is in compliance of all sub points considered under condition 3.1; -There is demonstrated evidence that for the independent legal land ownership review conducted HS has: <ul style="list-style-type: none"> ○ Received the approval by FSC of the legal entity appointed to conduct such review; ○ Received stakeholder input confirming that the appointed legal entity is appropriate/ free of conflict of interest; -HS has published 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); -There is demonstrated evidence that HS has duly considered stakeholder input received during the consultation process related to 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.
3.2	<p>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</p> <p>Based on the results of the independent legal land ownership review (required by condition 3.1) HS must return and 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. The return of the land and compensation* must be done immediately after the results of the independent legal land ownership review are published and the public consultation about the results of the legal review is finalized.</p>	

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<ul style="list-style-type: none"> Until the formal process to return the land to the lawful owners is completed, HS shall suspend any harvesting from such land. <p>*Compensation shall be equivalent to the value of the timber that was extracted from such land.</p>	
3.2.a	<p>a. 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 by:</p>	<p>E.g. HS presents to FSC immediately after the results of the independent legal land ownership review are published and the public consultation about the results of the legal review has been finalized:</p> <ul style="list-style-type: none"> - Demonstrated evidence that compensation 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.a.); - 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.
3.2.a.i	<p>i. Returning such land to them and;</p>	
3.2.a.ii	<p>ii. Compensating them for the value of any trees harvested from the illegally restituted land and of the cases where the seller was not legally entitled to sell such land (so as to put them in the same position as if they had always had possession of the land).</p>	
3.2.b	<p>b. If the lawful land owners cannot be identified - or if such land is found to be State land - then HS must:</p>	<p>E.g. HS presents to FSC immediately after the results of the independent legal land ownership review are published and the public consultation about the results of the legal review has been finalized:</p> <ul style="list-style-type: none"> - Demonstrated evidence that compensation of the Romanian State has been conducted- in all cases where the results of the independent legal land ownership review could not identify the lawful land owners cannot be identified or found the land to be State land - (and such compensation is in compliance with all points under condition 3.2.b.);

#	FSC Condition for ending the disassociation with HS	Verification Indicator
		-Demonstrated evidence that HS has suspended any harvesting from the affected lands, until the formal process of returning the land to the the Romanian State is completed.
3.2.b.i	i. Return such land to the Romanian State and;	
3.2.b.ii	ii. Compensate the Romanian State for the value of any trees harvested from the illegally restituted land.	
4	<p>4. Social and Environmental compensation for the damages caused to Romanian forest and people</p> <p>Since the land from which most illegal timber supplied to HS cannot be identified, HS must make appropriate environmental and social compensation in a form of an independent fund for the damages it has caused to the Romanian forest and its people as a whole.</p> <p>Compensation shall focus on social support for deprived communities in forested areas in Romania, in particular those affected by HS operations and in environmental and biodiversity maintenance and/or restoration activities in forests in Romania.</p>	
4a	<p>a. HS must propose an organizational and financial setup to ensure the efficient/effective use of this fund for the implementation of environmental and social projects to the benefit of Romanian society and compensate for the environmental and social damages caused.</p> <p>The setup of the fund must:</p> <ul style="list-style-type: none"> ○ Ensure the independent management of the fund (free of direct or indirect influence of HS, its affiliates and subsidiaries); ○ Be nonprofit oriented, having high management efficiency with minimum overhead; ○ Ensure that the usage of the fund is transparent, acting in a non-discriminatory manner, and involving social and environmental NGOs; ○ Assure a transparent selection of projects and the public disclosure of results of the implementation of such projects; <p>This environmental and social compensation must be provided for a period of at least ten years and its value should be defined as a percentage* of the total turnover of HS'</p>	<p>E.g. HS has defined and implemented a set of appropriate social and environmental projects to compensate for the social and environmental damages caused (and provided demonstrated evidence that it has done so).</p> <p>Independent verification has confirmed that such projects:</p> <ul style="list-style-type: none"> -Have been satisfactorily implemented, within the agreed timelines (as stipulated in the project proposals selected and approved by the independent management fund); -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) -Are in full compliance with FSC condition 4; -Have been developed in a process which meets stakeholder engagement expectations.

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	<p>businesses in Romania over the period to which the identified wrongdoings/findings relate.</p> <p>*Note: The value/ percentage will be recommended by the SWG after their 2nd meeting following research on the matter. (Values provided by the Romanian Competition Council will be used as reference).</p>	<p>E.g. HS proposed, within three months from the day the final FSC Conditions Framework is approved by the FSC BoD, an organizational and financial setup for an independent fund for the implementation of environmental and social projects as compensation for the damages caused.</p> <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"> - The independent management of the fund (free of conflict of interest); - 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; - A transparent selection of projects; <p>-No substantiated concerns about the independent fund setup proposed by HS have been raised by stakeholders.</p>
4b	<p>b. HS must publish on its website information/ reports about the ongoing and accomplished projects implemented to compensate for the social and environmental damages.</p>	<p>E.g. 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 are published on a quarterly basis starting from the date in which the final selection of projects is concluded by the fund.</p>
5	<p>5. Additional Trust Building Measures</p>	
5.1	<p>Refraining from producing communications about the roadmap process for promotional purposes</p> <p>HS must refrain from publishing communications material 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>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>.</p>

#	FSC Condition for ending the disassociation with HS	Verification Indicator
	Note: 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> ¹⁰ .	
6	6. Compensation of PfA Investigation Costs to FSC <ol style="list-style-type: none"> 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. 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. 	E.g. 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).

Annexes

- **Annex 1:** *FSC Stakeholder Engagement Plan for the Schweighofer Group roadmap process*
- **Annex 2:** *Conditions for re-association proposed by the complaints panel*
- **Annex 3:** *Comparison matrix- Overview of the main changes between initial and consultation draft of the FSC Conditions Framework*

¹⁰ *FSC Communications Protocol for Schweighofer* is an internal FSC protocol to be agreed between FSC and HS. (Such protocol can be shared with stakeholder upon request). *This document is still to be developed by FSC and is planned to be in place by the second Stakeholder Working Group meeting in July 2017.*