SUSTAINABLE FORESTRY

DDS – Best Practice EGGER

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We exclude the following wood sources:

1. Illegally harvested wood;
2. Wood originating from regions where traditional or fundamental civil rights are contravened;
3. Wood originating from uncertified forests with a high protection value;
4. Wood from genetically modified trees;
5. Wood originating from forests that will be converted into plantations or into non-forestry uses.
6. Wood violating the ILO Core Conventions, as described in the ILO Declaration on Fundamental Principles and Rights at Work.

- Mentioned in the VRG 229 or the new Sustainability Report of the EGGER Group
- All EGGER sites (orgs) are certified to PEFC and FSC ® standard since 01.10.2009 (multisite - group certificate)
- FSC: SGSCH-COC-110039, SGSCH-CW-110039
- PEFC: CH17/0386 for PEFC and PEFC CS
- Additional external monitoring (SGS) for EUTR relevant cases

Facts: We save natural resources

- Cascade usage of wood (Recycling wood)
  - positive effect of CO₂ storage
- Co-products (sawmilling by products)
- Use of poor quality logs as a by-product of timber harvesting and thinning
- Own biomass heat and power plants
- Regional buying of wood
- No tropical timber or wood from virgin forests
- Integrated sites (Sawmill brilon and EGGER Forestry) creates more transparency and good supply
Due Diligence System (DDS) in case EGGER has operator status

Creation of new suppliers in SAP
Obtaining information on wood origin and species

1\textsuperscript{st} Level: Risk Assessment country according to VRG 198 Annex 1

2\textsuperscript{nd} Level: Obtaining information on supplier and import according VRG 198 Annex 2

3\textsuperscript{rd} Level: Risk Assessment – on supplier, supply chain and origin

Risk mitigation acc. Art. 6 (1) d further control measures necessary

1. In case of complex supply chains we work with Third Party verification
   \Rightarrow FSC or PEFC 100\% certified or FSC controlled Wood

2. For uncertified entrances we conduct supply chain audits according DDS VRG 198 Annex 4

If no compliance with EUTR no purchase from the supplier

\Rightarrow EGGER has status of a trader in most cases
When customers buy from EGGER in Europe, the wood has already been placed on the market. Invoice is sufficient as a proof of origin for traders

\Rightarrow All relevant info we provide with VRG 270
VRG 198 Control measures
VRG 198 Due Diligence System – EGGER wood purchase

1st Level
Country Risk Assessment (VRG 198 Annex 1)
Stakeholder Consultation (VRG 198 Annex 7)

2nd Level
Supply contract (VRG 198)
Documenting origin (VRG 198 Annex 2)

3rd Level
Risk Assessment of supplier
Audits (VRG 198 Annex 4)
   Supply Chain
   Field Audits

Certify supplier
no purchase

If a risk is identified, at source or supply chain level, control measures must be taken. These must address and minimize the identified risk. They must be specific, measurable, goal-oriented, relevant and concrete. The precautionary principle applies. Thus, control measures serve either to avoid risks or to minimize risks.

⇒ described in group guideline VRG 198
Technical implementation of EUTR
1st Level – VRG 198 Annex 1 Country risk assessments

Web research:

FSC® Risk Assessments
CPI www.transparency.org  e.g. Ukraine CPI = 30 < 50 high Risk
https://www.illegal-logging.info/
http://forestlegality.org/risk-tool/
www.globalforestwatch.org
http://duediligencetimber.eu/
www.cites.org

Local Webpages – State Forestry organizations
Technical availability at our plants
VRG 198 Due Diligence System – wood purchase

Supplier & origin from Low risk country

=> Contract
  1. origin of wood traceable
  2. tree species
  3. Self declaration EUTR, CW Principles
  4. Certification preferred
=> Risk Assessment – low risk

Trader, Sawmill (Low Risk – high Risk)
Forest Owner (high Risk country)
specify Risk – supply chain deepness 2-4

=> contract mandatory
=> further information required (VRG 198 Annex 2)
=> Risk Assessments for suppliers
=> EGGER control measures, e.g. VRG 198 Annex 4 Audit
Technical availability at our plants
VRG 198 Controlled Wood Program – supply chain audits for clarification of risk

Levels of controls and supply chain scheme...

...and Audit flow in risk country
Facts on Ukraine (FAO Report 2015)

- Forest Area since 1990 increasing – UN (FAO) Report 2015
- 99.7% State Forests
- 3.98 Mio ha FSC certified (app. 40%) 2018

- Sustainable ACC is determined by State Agency of Forest Resources (SAFR) & Ministry of Ecology for Each Year
  - Standing stock acc. FAO report 1990 from 1414 Mio m³ increased until 2015 to 2196 Mio m³

- Exports must be allowed by SAFR.
- Although SAFR provides mandatory certificates on origin for Export (EUTR relevant)
Facts on Ukraine (FAO Report 2015)
Forest Resources Assessment

Facts:
- In Summary there is a decline of forest areas worldwide, but it differs depending on the continent or region
- In Europe, Forest Areas are increasing

### Basic Indicators for Sustainability of European Forestry

<table>
<thead>
<tr>
<th>Period</th>
<th>BWI 2</th>
<th>FAO 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Germany</td>
</tr>
<tr>
<td>Total Forest Area</td>
<td>2002-2012</td>
<td>in ha</td>
</tr>
<tr>
<td>State</td>
<td></td>
<td>3,143,301.00</td>
</tr>
<tr>
<td>Growth of Forest Area</td>
<td>2002-2012</td>
<td>in ha</td>
</tr>
<tr>
<td>State</td>
<td></td>
<td>-96,581.00</td>
</tr>
<tr>
<td>Forest coverage by species</td>
<td>2002-2012</td>
<td>in ha</td>
</tr>
<tr>
<td>Spruce</td>
<td></td>
<td>-242,807.00</td>
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<tr>
<td>Pine</td>
<td></td>
<td>-84,774.00</td>
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<tr>
<td>Conifer</td>
<td></td>
<td>-275,890.00</td>
</tr>
<tr>
<td>Broadleaf</td>
<td></td>
<td>315,368.00</td>
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<tr>
<td>Stock</td>
<td>Conifer</td>
<td>m³/ha</td>
</tr>
<tr>
<td></td>
<td>Broadleaf</td>
<td>m³/ha</td>
</tr>
<tr>
<td>Annual cutting</td>
<td>total</td>
<td>m³/a</td>
</tr>
<tr>
<td>State</td>
<td>m³/a</td>
<td>23,657,000.00</td>
</tr>
<tr>
<td>Total</td>
<td>m³/ha *a</td>
<td>6.85</td>
</tr>
<tr>
<td>State</td>
<td>m³/ha *a</td>
<td>6.37</td>
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<tr>
<td>Net annual increment</td>
<td>total</td>
<td>m³/ha *a</td>
</tr>
<tr>
<td>Conifer</td>
<td>m³/ha *a</td>
<td>4.80</td>
</tr>
<tr>
<td>Broadleaf</td>
<td>m³/ha *a</td>
<td>2.80</td>
</tr>
<tr>
<td>Sustainability - Quote</td>
<td></td>
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</tbody>
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actual and assured data is necessary for EU stakeholders to proof sustainability
Custom Codes 4401 vs 4403
Different interpretations between the customs authorities

Letter from the Ukrainian Forest Authority from 12.01.2017 that by cutting the wood onto a length of 2 meters the export is permitted

- State forestry units prepared and provided all documents with the (permitted) customs code 4401 in Ukraine to the exporting companies (i.e. the code 4401 was not inserted by the exporting companies into the relevant documents but by the state forestry units).
- Customs code for export declaration changed in beginning of 2017 (from partly 4401/4403 to only 4401) but this can be explained by the change of the physics of the wood (e.g. the cutting to 2 meters).

Not the utilization is relevant, timber shall be defined by physics + quality and assortment

- 4401: Fuel wood, in logs, in billets, in twigs, in logs, or in similar forms: wood in chips or particle sawdust and wood waste and sawdust, whether or not agglomerated in logs, briquettes, pellets or similar forms.
- 4403: Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared.
- 4406: Railway or tramway sleepers (construction of wood).
- 4407: Wood sawn or milled lengthwise, sliced or pruned, whether or not planed, sanded or end-jointed, of a thickness exceeding 1 mm.
Risk Mitigation on illegal Logging with Timber Tracking Systems in specify risk countries

How does it work in Ukraine

Timber Tracking System

- Legality of Harvesting
- Inventory
- Payment of taxes
- Transportation
- OHAS according to law

=> We do cross-check by third party or own auditing

350 state forest companies use our system at the moment
75% of cut timber go through our system
Risk Mitigation on illegal Logging with Timber Tracking Systems in specify risk countries

<table>
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<th>Relocation</th>
<th>Soft- und Hardware für Forstwirtschaft</th>
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Timber sales.
Printing supporting documents right at the cutting site.

All information about the transported timber is ciphered in the 2D code.
Simultaneously with document printing, information is sent to the central database.
Risk Mitigation on illegal Logging with Timber Tracking Systems in specify risk countries

- legality of harvesting
- inventory
- payment of taxes
- transportation
- OHAS according to law

⇒ Mandatory at EGGER
⇒ Cross-check by third party or own auditing
Risk Mitigation on illegal Logging with Timber Tracking Systems in specify risk countries

Romania – Sumal
- Legality of Harvesting
- Inventory
- Payment of taxes
- Transportation
- OHAS according to law
⇒ Mandatory at EGGER
⇒ Cross-check by third party or own auditing
Impact of climate change on European Forests

Annual cutting rate vs. sustainable increment

Average of cutting in 10 years inventory period is relevant – check inventory books of FMUs
New General Data Protection Regulation

No legal title to ask for information

The General Data Protection Regulation (EU) 2016/679 ("GDPR") is a regulation in EU law on data protection and privacy for all individuals within the European Union (EU) and the European Economic Area (EEA).

Superseding the Data Protection Directive 95/46/EC, the regulation contains provisions and requirements pertaining to the processing of personally identifiable information (personal data) of individuals (formally called data subjects in the GDPR) inside the European Union, and applies to an enterprise established in the EU or—regardless of its location and the data subjects' citizenship—that is processing the personal data of people inside the EU.

- Critical Supply chain Audit reports with personnel data
- Interviews with staff on OHAS and working conditions
- Storage of personnel data mandatory 5 years for FSC
- No legal title for auditing sub suppliers

⇒ State Forests Enterprises denying information access to administrated forests (e.g. private and municipal Forests)
EPF member proposal to EC for EUTR

- Expand the scope of EUTR (for all wooden products)
- Standardization of implementation and surveillance in all EU Member State
  - Standardization of auditing, operator must receive audit reports in time
- DDS for EUTR must be practicable
  - Acc. Art 6 risk mitigation in case of complex supply chains with third party verification (FSC, PEFC and other recognized schemes) shall be sufficient
  - Please give operators more advice and help to optimize DDS for each country (which documents are sufficient to mitigate the risk)
- Green Lane for certified products with/or state tracking systems on timber
  - It is the responsibility of FSC and PEFC to show evidence and conformity of EUTR
  - Best Motivation for non EU supply chain members to improve sustainability
- EC shall consult more local experts and foresters specially for Ukraine
- Operators need more official assessment of Forest Resources with modern inventory technics – EC should initiate more inventory projects

EU wood industry is in strong competition with Non-EU-States on the purchase market
Thank you for your attention!