BUILT ON LIES

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

The indiscriminate sourcing practices of Japanese companies are fueling illegal logging in Europe's last remaining virgin forests. Since arriving in Romania in 2002, Holzindustrie Schweighofer (Schweighofer), an Austrian owned timber and wood processing company, has incentivized illegal logging through its sourcing policies. In 2015, the Romanian government launched an investigation into the company. Initial reports indicate that a search of Schweighofer’s factory found evidence of over 100,000 m³ of undocumented logs and the involvement of Schweighofer sourcing officials in organized criminal networks for laundering illegally logged timber. New evidence uncovered by EIA indicates that nearly 50% of the company’s exports of sawn lumber and laminated timber are destined for Japanese buyers, including many of Japan’s largest and most prominent trading companies.

Schweighofer has invested heavily in the Romanian forest products sector since 2002, when it sold off its Austrian assets; it is now the largest processor of softwood logs in the country, producing sawn lumber, glued laminated timber (glulam) and biomass, largely for export to Europe, Japan, and the Middle East. Japanese companies received an estimated 47% of the company’s exports in 2014. More than half of Schweighofer’s exports to Japan consist of minimally processed spruce construction lumber. The remainder, 42% of exports to Japan in 2015, consist mainly of pine glulam beams and edge-glued boards, used primarily for house construction. Sales to Japan totaled nearly ¥20 billion in 2015.

Illegal logging has widely been recognized as a pervasive social ill by the Romanian media, government and civil society alike. The Romanian government itself has conservatively estimated that nearly half of all timber cut in the country is done so illegally.

From 2002 onward, Schweighofer continuously increased its sourcing of Romanian timber, building three large sawmills by 2015. However, since 2013, after increased media, public and government scrutiny over the company’s growing market share and the monopolistic control it held over the country’s forest sector, the company shifted its sourcing primarily to neighboring Ukraine, a country suffering from the highest level of corruption in Europe, and more recently, full scale armed conflict with its Russian neighbors. In 2015, Schweighofer imported nearly 1 million cubic meters of spruce and pine logs from Ukraine, totaling 33% of the timber used in its Romanian mills. This Ukrainian timber is destined in large part for the Japanese market.

In 2015, the Environmental Investigation Agency (EIA) published a detailed report following a two-year investigation into illegal logging in Romania. This report showed that Schweighofer has been the single biggest driver of illegal logging in the country over the past decade. An undercover investigation showed the Austrian Schweighofer official who was most influential in setting up the company’s Romanian operations openly accepting illegal wood and further, offered bonuses for suppliers of illicit timber. In most of the instances of illegal logging EIA encountered in the field, loggers sold the timber to Schweighofer’s mills. Through a series of case studies covering the past decade, the 2015 EIA report documented specific examples in which Schweighofer had received illegal timber, and documented the consequences to Romania’s forests, national parks, and communities. Before and after the 2015 EIA report was released, the company has continually stated that there are no problems with their sourcing and that all evidence brought against it is false. This despite increasing evidence from the Romanian government, multiple internationally renowned independent news organizations and nearly every environmental group working on the issue. Schweighofer has tried to hide behind paper based certification schemes, but the Forest Stewardship Council (FSC) recently announced that it is investigating the company due to "serious allegations" relating to illegal logging.

This new report (EIA 2016) highlights the outsized role of Japanese companies and customers in fueling illegal logging in Romania and Ukraine. Using recently-obtained Romanian export records, this report identifies Schweighofer’s largest Japanese buyers, chief among them Hanwa, Sumitomo Forestry, Lamsell Corporation (Meiken Lamwood), Itochu, and Sojitz, most of whom have bought lumber from Schweighofer since at least 2010 (Table 2, p. 12). The large amounts of exports of high-risk timber to Japan and Europe illustrate the need for Japanese and European companies to perform significant due diligence measures when sourcing from areas at high risk of illegal logging, even when these wood products come from a company that claims to be a good actor.

This case provides further evidence that Japan’s voluntary measures to prevent illegal timber imports are not sufficient to address the scale of the global challenge of illegally sourced wood. The Japanese government has a responsibility to ensure that all companies are required to proactively ensure legal sourcing of wood product imports.

Nearly 50% of Schweighofer’s exports of sawn lumber and laminated timber are destined for Japanese buyers, including many of Japan’s largest and most prominent trading companies.
Illegal logging in Romania has been widely recognized by the Government, media, and environmental activists as a serious problem for over a decade. In an official study focused only on a limited set of illegal harvesting methods, the Romanian government estimated that, between 1990 and 2011, 80 million m$^3$ of timber was cut illegally in Romania — 24% of the total volume of wood cut during this period — worth at least €5 billion.\footnote{23} This figure is conservative, because it fails to capture many forms of illegal logging, such as logging on land stolen from local communities through unjust and illegal restitution processes that continue unabated throughout the country. A recent study by the Romanian National Forest Inventory took a more detailed approach, including numerous field visits to logging sites across the country.\footnote{24} This study concluded that 8.8 million m$^3$ of timber was cut illegally each year between 2008 and 2014\footnote{25} — equivalent to 49% of the timber cut during this period.\footnote{26} It appears that this study did not take into account all forms of illegal logging, including timber cut on illegally restituted land.\footnote{27}

Illegal logging and poor forest governance have led to severe deforestation in once-pristine forests. Despite official statistics showing an increase in forest area from 1990 to 2012,\footnote{28} analyses of satellite footage illustrate instead that Romania has lost 280,000 hectares of forest, almost half of this in protected areas, during the past decade.\footnote{29} Almost half of this forest lost was located within national parks and other protected areas.\footnote{30} EIA’s investigation detailed the many forms of illegal logging that occur throughout the Romanian forest sector (See Sidebar, p.5: Types of illegal logging common in Romania). Common violations of harvesting regulations across the country include exceeding allowable cutting limits, illegal clear-cutting, and regular abuse of so-called “sanitary” permits for cutting of diseased or storm damaged timber.

Initiated in the early 1990s, the ongoing restitution process of forest land confiscated by the communist government in 1948 has also been plagued by illegalities. The Romanian government estimates that at least 20% of all public forests meant to be returned to the original owners has been illegally acquired by others, resulting in widespread disenfranchisement of the true land owners and the extensive deforestation of illegally obtained forest land.\footnote{31} In most cases, organized criminal groups including government officials and politicians orchestrated these illegal restitutions using fraudulent documents and bribery.\footnote{32} Foreign companies, chiefly but not exclusively led by Schweighofer, have taken advantage of this system to earn record profits.\footnote{33} Combined with a lack of funding for forest protection officials, these factors have led to the disastrous deforestation and decline in Romania’s domestic forest products industry over the past 25 years.\footnote{34}

Taking the many forms of illegal logging documented by the Romanian government, local NGOs, and in EIA’s own investigation into account, EIA estimates that at least 50% of all timber cut in Romania was illegally sourced. In the majority of the cases of illegal logging investigated by EIA, the Austrian company Schweighofer appeared as the destination for the illegal timber.\footnote{35}
Illegal logging takes many forms, all of which can destroy long-term sustainable production and functionality as habitat for wildlife. These effects have severe consequences for communities dependent on the forest products industry and on the health of forest ecosystems.

1. Abuse of authorized harvesting limits – overcutting

Cutting beyond the limits of what is allowed under a particular cutting permit (APV) is one of the most common violations in the Romanian forest sector. EIA’s investigative team found examples of unmarked stumps having been cut alongside marked stumps in nearly every field case of logging encountered.6

In a recent control check in May and June of 2015 by the Ministry of the Environment, Water and Forests (MMAP) on Schweighofer’s sawmill in Sebeș, auditors documented a scheme by which Schweighofer offered a 10 RON (€2) per cubic meter bonus to suppliers who provided the full quantity of their approved cut (APV) as high quality timber.7 This practice encourages suppliers to overcut beyond their legal limits, as the report notes that around 15% of the approved cut represents low-quality firewood or branches.8 Separately, in a nine-month period in 2014, the MMAP auditors found that suppliers had created false transportation documents to cover 12,694 m$^3$ of logs sent to Schweighofer - Sebeș in excess of contracted amounts.9

2. Illegal restitution

Illegalities have plagued the process of restitution of forest land. A 2013 report from the Romanian government auditing agency, the Court of Accounts, estimated that around 20% of all restitutions of forest land between 1990 and 2012 were illegal.10 Given that private forests make up around half of all forest land in Romania, this means that the timber harvested from around 9% of all forests in Romania is by definition illegal, given it was cut from land stolen from its true owners.

3. Abuse of sanitary regulations – bark beetle infestations

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

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

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

Romanian forest regulations allow for the clearing of wood felled by “accidental” causes, meaning trees that have fallen due to strong winds, landslides, avalanches, etc.12 The Romanian National Institute of Statistics recorded that “accidental” harvests took place on over 500,000 hectares of forests in Romania in both 2012 and in 2013, totaling 2.8 million m$^3$ in 2012 and 3.6 million m$^3$ in 2013.13 The Romanian Court of Accounts reported that, in 2012 and 2013, in only 4.2% of cases had Romanian forest officials conducted the required on-site check prior to collection.14 The report states that on this basis there is suspicion that, in these two years, over 6 million m$^3$ of timber was harvested illegally in Romania under the guise of “accidental” harvesting.

5. Lack of stamps during harvest

The Romanian forest code stipulates that a certified forest engineer must mark all trees with a visible hammer stamp with paint prior to harvest.6 In certain cases, such as clear cuts or circular cutting (small clear cuts in a circle) engineers have to mark only the trees around the edges of the harvesting zone.15 However, for most examples of principle or sanitary cutting, all stumps must be marked before harvesting begins.16

As noted above in point #3 regarding overcutting, EIA’s investigation found examples of unmarked stumps in the majority of forest sites inspected.17 In these examples, forest experts consulted by EIA confirmed that this cutting had in fact been illegal based on the authorization paperwork.18 Combined with the widespread abuse of transportation stamping requirements (point #6 below), cutting of both marked and unmarked trees facilitates laundering of illegal timber.

6. Lack of stamps and documentation during transport

According to Romanian law, all logs leaving the forest with a diameter greater than 20 cm must be stamped with a number corresponding to an accompanying transportation document (aviz).19 The aviz records information specific to this single shipment, including harvest location and plot number, vehicle registration number and driver’s name, destination company, and exact size and dimension of all logs.20 The aviz must be registered in the SUMAL (Sistem informațional integritate de urmărire a materialelor lemnoase) nationwide electronic log-tracking database before transportation begins.21

Lack of transportation stamps makes it impossible for police or a receiving company to confirm the legal origin of a given shipment of timber during transport.22 Although industry experts acknowledge that violations of the requirement for transportation stamps are commonplace,23 these violations nonetheless facilitate laundering of illegal timber. In one common scenario, logging trucks make multiple trips under a single aviz, meaning that two or three times the legally permitted quantity can be smuggled in plain sight.24

At two Schweighofer rail depots in northern Maramureș County and one in central Buzău County, EIA investigators found that the vast majority of logs in the yards were unmarked. In Borşa, EIA filmed the unmarked logs being unloaded from a truck that investigators had followed out of the forest from an illegal logging site.

7. False paperwork

An ex-Schweighofer employee told investigators that there is an active trade in false documents in Romania, where shell companies sell fake papers to companies who need them.18 In a 2013 case, the DNA (Romanian National Anticorruption Directorate) found concrete evidence of this illegal activity. DNA investigators obtained a sheaf of blank aviz papers, already stamped by the local Romsilva forest bureau, some of which had allegedly already been used to transport illegal wood.25 These pre-stamped documents are essentially “signed blank checks” for laundering illegal timber, meaning that forest officials never compared and confirmed the listed materials with the actual timber transported.26

8. Illegal logging practices on site

Some logging that may be on a legal concession and may be legally recorded in government statistics is done in a way that directly breaks the rules of forest management and in this way destroys the landscape and sustainability of the area. This includes illegal clear cutting, cutting near and destroying very sensitive freshwater streams and ecosystems, and polluting logging sites with contaminants. These practices are particularly destructive in sensitive areas such as Natura 2000 land, where limited sanitary logging may be allowed. EIA found illegalities of this type on every logging site that it visited in the field.27

"hammer stamp on stump"
SECTION 2.1 BACKGROUND

Schweighofer, which in 2014 purchased 32% of the country’s softwood log production, has misled its customers about its sourcing practices in Romania for more than a decade. The company states that its forests are FSC certified, that all of its supplies come from Programme for the Endorsement of Forest Certification (PEFC)-controlled sources, and that it refuses timber cut in national parks. In reality, less than 2% of its supplies come from its own FSC-certified forests and the remainder is sourced from over 1,000 separate logging companies, many of which have been prosecuted or are currently under investigation for illegal logging. The PEFC certification that Schweighofer claims “guarantees” the legality of its sourcing does nothing of the sort. It requires only the existence of documentation that “indicate” legality, despite widespread fraud in forest sector documents in Romania. The numerous examples of illegal timber received by Schweighofer in EIA’s 2015 report illustrate the weaknesses of PEFC’s paper-based chain of custody (CoC) system in Romania’s high-risk forest sector. Although Schweighofer has claimed for at least the past three years that it refuses timber from national parks, EIA found that the company knowingly accepted wood from national parks until at least early 2015. A company representative admitted doing so to a Romanian environmental activist, who tracked a truck of timber illegally cut in a national park to Schweighofer’s sawmill, where he was beaten and pepper-sprayed by the company’s guards.

EIA investigators met undercover with Schweighofer’s top wood buyers in Romania on two separate occasions, and told them that they had a contract with a local community that allowed them to cut a certain amount of timber each year, but that the investigators instead wanted to cut twice as much. In both meetings, the Schweighofer officials stated clearly that they would accept the wood harvested in excess of the authorized volumes, making it illegally sourced, and further described the company’s bonus policy of paying the equivalent of roughly €8 extra per cubic meter for any timber shipments delivered exceeding the contractually agreed quantity. EIA released audio and video recordings of these meetings in April of 2015. In May 2015, in response to the reports from EIA and other media sources, the Romanian Ministry of the Environment, Water and Forests (MMAP; from its Romanian name, Ministerul Mediului, Apelor și Pădurilor) ordered inspections of Schweighofer’s sawmills in Sebeș and in Rădăuți, which were coordinated with inspections of suppliers in a number of regions across the country. The government investigation of the Sebeș mill reviewed a few hundred supplier contracts out of a subset of over ten thousand contracts, comparing transportation documents (aviz for log shipments to Sebeș with logging authorizations (APV)) of this subset of contracts, the government investigation found evidence that 27 suppliers in just one county, Maramureș, had delivered over 165,000 m³ of illegal timber to Schweighofer’s Sebeș mill between January 2014 and April 2015. In addition, the report noted a large number of additional violations, including what the auditors described as the creation of illegal networks including local forest officials, supplier companies, and “local representatives of Schweighofer Sebeș” in order to give the “illusion of legality to logs purchased without legal proof of origin.”

CEO Gerald Schweighofer claims that his sawmills reject all timber from illegal sources. Yet in its supplier contracts, his company stated that timber purchases provided to Schweighofer without proper legal documentation are accepted, but with a 33 RON/m³ fee. Unless any such wood is handed over to authorities, or otherwise verified as legal, this constituted a contractual system to gain additional profit by penalizing suppliers while nonetheless continuing to sell cheap illegal wood on to buyers. This “illegal wood fee” on illegal timber supplies matched the bonus offered to EIA investigators for wood in excess of the agreed amount, each at about €8 per cubic meter — thus any penalty that suppliers might pay for providing illegal wood without documentation, could be cancelled out by Schweighofer’s bonus for timber in excess of signed contracts. Schweighofer has been active in Romania since 2002. Beginning that year, Schweighofer obtained multiple ten-year contracts from the Romanian government guaranteeing the company around half of all spruce logs cut from public forests, exempting them from the standard auction process. Over the past decade, Schweighofer has grown into the largest timber buyer and processor in the country, and currently operates five sawmills and factories in Romania producing sawn lumber, pellets and briquettes, and laminated structural timber and blockboard (see graphic p. 8). Schweighofer imports around 40% of the timber used in its Romanian sawmills from other countries, the vast majority from neighboring Ukraine. Although Schweighofer purchases nearly all of its timber from third parties, it often has close financial ties to these suppliers. In many cases, Schweighofer provides its suppliers with upfront financing, under contracts that obligate suppliers to provide a certain amount of timber to them. If suppliers fail to meet these targets, Schweighofer fines them. Court documents list examples in which the obligations for timber provision exceed the legal quantity allowed on suppliers’ forest lands.

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LOCATION OF SCHWEIGHOFER Factories

LEGEND
- Schweighofer Sawmill/Factory
- National Park / Protected areas
- Cities
- Capital

1 million m³ in 2015

Patchwork of clear cuts near Lake Vidra, Voineasa.
ILLEGALITIES OF HOLZINDUSTRIE SCHWEIGHOFER’S TIMBER SUPPLY CHAIN

Illegalities at source
- Illegal Logging in Permitted Areas
  - Clear cutting
  - Abuse of sanitary logging permits
- Illegal Logging in Forbidden Areas
  - Logging in national parks
  - Cutting outside of concession areas

Illegalities during transport
- Log hammer marks missing or incorrect
- Source documents absent or falsified
- Source documents used more than once

Illegalities at the sawmill
- Bonus incentivizing overcutting for extra wood
- Loans repaid with illegal timber
- Acceptance of illegal logs

JAPAN
EIA released undercover footage showing Schweighofer sourcing managers accepting and incentivizing illegal timber in April 2015. In October 2015, EIA released a 40-page report detailing Schweighofer’s receipt of illegal Romanian timber over the previous decade. This release was made at press conferences in Vienna and Bucharest together with the World Wildlife Fund (WWF), Greenpeace, Romanian NGO Agent Green, and Romania’s largest forest owner’s association. Both releases followed years of exposures from local Romanian press and civil society highlighting the company’s negative role in the Romanian forest sector. The Romanian government has responded strongly. European civil society is paying close attention, and the company has struggled to defend itself.

In June, 2015, the Romanian government announced that a five-week investigation into the company’s Sebeș plant had revealed numerous irregularities, noting the suspicion that some of the company’s timber had resulted from illegal logging, and that the case had been passed to the prosecutor’s office. Romania’s then Minister of the Environment, Grațiela Gavrilescu, revealed in an interview that the investigation had “in many cases found illegal timber that had been sold to Schweighofer through more than 50 ‘ghost’ companies, constituting a large amount of tax evasion.” Based on this evidence, Minister Gavrilescu explained that her ministry had handed the file to the department specialized in prosecuting organized crime and terrorism cases, as reported in March 2016 by Austria’s weekly profile. Romania’s new Minister of the Environment, Cristiana Pasca Palmer, confirmed in March 2016 that the investigation into Schweighofer and its suppliers remains ongoing.

In October, 2015 WWF Austria filed a formal complaint with Austria’s Federal Forest Office regarding suspected violations of the EU Timber Regulation (EUTR) by Schweighofer. In November 2015, the FSC announced it had opened an investigation against Schweighofer due to claims of purchasing and trading of illegally harvested timber in Romania. The investigation officially began in April 2016.

Schweighofer has responded to these developments by employing prominent public relations firms in Vienna and Bucharest and releasing a series of press releases and a “counter report” claiming to disprove all of the allegations leveled against the company. The company claims that it is the “unjust victim of a worldwide defamatory campaign” and that the strong controls at the gates of its sawmills ensure that the company has never received illegal timber. Schweighofer claims that EIA’s video was heavily edited to distort the truth.

These denials fly in the face of a litany of investigative reports from Romanian and international NGOs and media. Der Spiegel and profit, the leading weekly news magazines in Germany and Austria respectively, both were given access to EIA’s full footage. Both journals rejected Schweighofer’s claims: “the context was always clear,” wrote Der Spiegel, “profit could not see any difference in content between the unedited and the edited version.” According to Der Spiegel, Schweighofer officials attempted to cover up their actions by sending misleading information to Der Spiegel’s reporter. As supposed evidence of the company’s integrity, Schweighofer forwarded an email sent to EIA’s undercover investigator explaining that any timber had to have legal documentation. As Der Spiegel reports, a day before Schweighofer sent this email the company had already been informed of EIA’s undercover investigation and its upcoming news release. An anecdote from profit’s March 2016 report summarizes Schweighofer’s approach in responding to these accusations. The magazine reports that “it’s all not true.” Schweighofer has threatened the Romanian government with legal consequences if it does not weaken its stance on Schweighofer’s activities in Romania.

In November, 2015, the Romanian investigative program In Premiéra released a 45-minute long report which painted a vivid picture of illegalities at three stages of timber supply chains leading to Schweighofer. Organized criminal networks laundered illegal timber with the complicity of corrupt government officials; dubious commercial entities created fake paperwork to legitimize illegal cutting; this paperwork is then accepted at the gates of Schweighofer’s sawmills with no further questions asked. Shadowy businessmen distribute bribes through networks of forest officials, local police and Schweighofer company representatives. If officials speak out against the corruption, they and their companies are threatened.

New evidence continues to surface about Schweighofer’s activities. In November, 2015, the Romanian investigative program In Premiéra released a 45-minute long report which painted a vivid picture of illegalities at three stages of timber supply chains leading to Schweighofer. Organized criminal networks laundered illegal timber with the complicity of corrupt government officials; dubious commercial entities created fake paperwork to legitimize illegal cutting; this paperwork is then accepted at the gates of Schweighofer’s sawmills with no further questions asked. Shadowy businessmen distribute bribes through networks of forest officials, local police and Schweighofer company representatives. If officials speak out against the corruption, they and their companies are threatened.

During the course of filming, the lead journalist narrowly escaped a beating from a forester and a sawmill owner in a forest in an area near one of Romania’s most picturesque national parks. When the journalist reported this incident to local police, he was told that local law enforcement is powerless to stop illegal logging in the forest. “Basically the whole community is united against us,” says the officer. “Foresters are like small local kings, people won’t turn them in or collaborate with us.” In an interview, a truck driver confessed that while having been a driver to Schweighofer’s mills for over five years, roughly 80 percent of his deliveries consisted of illegal timber. The In Premiéra film also exposes personal relationships between forestry officials and key Schweighofer employees by exploring photos and exchanges on social media. Schweighofer officials have long threatened that if Romania’s government acts against it, the company will take its business elsewhere. In its recent public statements, the company emphasizes that it is moving its sourcing operations steadily outside of Romania, and that “it will not build a fourth factory in Romania.” Schweighofer has threatened the Romanian government with legal consequences if it does not weaken ongoing national forest policy reform processes that endanger their rapacious business model. Unless Schweighofer takes real and significant steps to reform its sourcing practices, its problems will likely continue to grow.

A clear cut forest in Romania

EcoStorm
SECTION 2.3 SCHWEIGHOFER’S HIGH-RISK IMPORTS FROM UKRAINE

Schweighofer’s timber imports into Romania have increased significantly in recent years – the vast majority, 80% in 2015, made up of spruce and pine logs from Ukraine. Schweighofer’s actions in Ukraine have mirrored the model the company used in divesting from Austria and setting up operations in Romania in 2002. As Schweighofer has run into difficulties in Romania, the company has shifted its sourcing to Ukraine, a country with an even higher rate of corruption, facing similarly high levels of illegal logging, and recently, in full scale armed conflict.

Over four years from 2010 to 2013, Schweighofer’s imports of softwood logs – primarily spruce – from Ukraine were relatively steady, at around 40,000-50,000 m$^3$ per month. On November 2015, Ukraine implemented a ban on all log imports, with the exception of pine logs, which would be phased in starting in 2017. In likely anticipation of this ban, in February 2015, Schweighofer announced the opening of a new glulam production line at the company’s Radauţi sawmill, manufacturing pine edge-glued posts for housing construction specifically for export to the Japanese market. At that time, the company announced that it had signed an exclusive contract with a single Japanese company, “Lamsell Corporation (Meiken)” for sales within Japan.

Romanian import data shows that Schweighofer’s imports of pine logs from Ukraine started in May, 2015, and have averaged around 60,000 m$^3$ per month through at least the end of February 2016 (see Table 1, p. 10). The company’s declared spruce log imports from Ukraine dropped to zero by mid-November 2015. Given that softwood production in Romania is mostly focused on spruce, it is likely that much of the material for Schweighofer’s glulam product for the Japanese market is made from Ukrainian pine logs.

The world’s attention has been focused on Ukraine since the 2014 “Maidan” revolution, Russia’s annexation of Crimea, and the continuing insurrection in the far east of the country. The ongoing instability in the country has been felt even in western Ukraine’s Carpathian Mountains bordering Romania, source for most of the country’s spruce, and in the pine-growing regions of the country’s northwest. Transparency International ranks Ukraine #130 out of 167 countries on its 2015 corruption index — the worst score of all European countries. The working group tasked with drafting the FSC’s 2013 Controlled Wood risk assessment of Ukraine, used in the granting of Schweighofer’s new FSC chain of custody “Mix” certification, surveyed a number of forests in the country, and found a number of cases of illegal logging, with many of them not being reported to the authorities.

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### TABLE 1: SCHWEIGHOFER ROMANIA’S TIMBER IMPORTS FROM UKRAINE

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<thead>
<tr>
<th>Month</th>
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The table shows the monthly imports of pine, spruce, and unspecified softwood from Ukraine by Schweighofer Romania from January 2010 to December 2012.
of forest sector participants. The group’s report notes that every single respondent surveyed reported that corruption exists in Ukrainian forestry, and 80% considered the level was “very high.”

The same FSC report references more than a dozen sources describing illegal logging in Ukraine. In every assessment category related to illegal logging, the report lists the risk as “unspecified”, meaning that risk is present, but that the exact degree of risk has not been determined. A 2012 study lists a number of illegal activities present in the Ukrainian forest sector, including cutting commercial timber using sanitary permits for clearing damaged or diseased trees, cutting beyond specified limits, and falsification of documents. The study highlighted a key structural barrier to proper enforcement, namely, that both forest governance and forest management are in the hands of the same entities — the units of the State Resources Agency. News reports indicated a perhaps even more serious institutional problem for Ukrainian forest governance — national funding for forest management has dropped precipitously from 438 million hryvnia in 2013 to only 66 million hryvnia in 2016 (around $2.5 million USD).

Perhaps most disturbingly, recent media reports have highlighted the phenomenon of illegal logging of irradiated pine logs within the forbidden zone surrounding Chernobyl, site of the world’s largest nuclear disaster in 1986. These illegal pine logs were laundered on the market and reportedly exported to foreign countries including Poland, Hungary, and Romania. The FSC report similarly noted an “unspecified” risk that irradiated timber could find its way onto the market, in particular through trading companies.

The species that Schweighofer sources from Ukraine, first spruce and now pine, are widely available in large quantities from a large number of low-risk countries in Western Europe, North America, and even within Japan itself. Given the extremely high levels of corruption and numerous reports of illegal logging in Ukraine, Schweighofer must be responsible for conducting a strict degree of due diligence to ensure the legality of its timber imports from Ukraine to Romania. The company has never published its due diligence standards for its extensive Ukrainian sourcing, nor has it publicized any details of how its due diligence measures are conducted in practice. Schweighofer’s Japanese buyers need to be extra vigilant in questioning the validity of the company’s documents of origin. Based on Schweighofer’s history in Romania, they cannot rely only on Schweighofer’s word or simple chain of custody certification.
PART 3: JAPAN’S IMPORTS FROM SCHWEIGHOFER

Japanese companies have been Schweighofer’s main buyers for at least half a decade. Schweighofer’s exports to Japan have been relatively steady since 2010 (Table 3, p. 13). During most of this time period, the company exported simple spruce boards. Since the end of 2013, the company has increased its exports of glulam products, and by 2015 these made up 42% of its exports to Japan.

Schweighofer’s Japanese customers have been consistent as well. Hanwa, a large trading company with its headquarters in Osaka, has been Schweighofer’s largest Japanese customer since at least 2010. In 2015, sales to Hanwa made up 35% of all the Austrian’s exports to Japan — 76% of these sales were sawn boards. Nearly all of Schweighofer’s Japanese buyers are trading companies, which in turn sell the lumber and glulam products onwards to construction companies. This timber is largely destined for the construction of wood-frame houses across Japan.

TABLE 2: 2015 Sales to Top 10 Japanese Customers

<table>
<thead>
<tr>
<th>1. Hanwa Co. Ltd.</th>
<th>Sawn Lumber: ¥5.2 B</th>
<th>Glulam: ¥1.7 B</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Sumitomo Forestry</td>
<td>Sawn Lumber: ¥1.8 B</td>
<td>Glulam: ¥1.3 B</td>
</tr>
<tr>
<td>3. Lamsell Corporation (Meiken)</td>
<td>Glulam: ¥2.6 B</td>
<td></td>
</tr>
<tr>
<td>4. Itochu Kenzai Corporation</td>
<td>Sawn Lumber: ¥1.3 B</td>
<td>Glulam: ¥427</td>
</tr>
<tr>
<td>10. Yoshimei Co Ltd</td>
<td>Glulam: ¥243 M</td>
<td></td>
</tr>
</tbody>
</table>
PART 4: TIME FOR JAPAN TO ACT ON ILLEGAL LOGGING

SECTION 4.1 JAPAN’S CURRENT MEASURES INSUFFICIENT

Under current Japanese law, most Japanese companies are not required to avoid sourcing illegal timber when buying overseas. All other major developed markets and all other G7 countries, including the US, EU, Australia and Canada, have established a prohibition on the import of illegal timber. Most of these nations now require their companies to perform mandatory due diligence when sourcing wood products overseas.

Japan was the first nation to respond to commitments made at the 2005 Gleneagles summit, where all G8 nations pledged action to stop the import of illegal timber. In 2006, Japan revised the Basic Policy on Green Procurement to require the national government to only purchase legal and preferably sustainable wood products based on the Guideline for Verification on Legality and Sustainability of Wood and Wood Products. The law encourages businesses and local governments to also purchase legal and sustainable wood products. However, these measures have not been strong enough to stop the import of illegal timber.

Japan’s Green Purchasing Law accounts for only about 5% of Japan’s imports of wood products. An independent survey of government implementation of the Green Purchasing Law showed that one quarter of government agencies that responded to the survey do not properly check the legality of wood products. In addition, the Law lacks penalties to ensure compliance. Moreover, the Law does not require companies producing for the government to conduct due diligence to check whether the timber that is purchased is in fact legal.

Although Romania is a small country, Schweighofer alone shipped ¥20 billion JPY worth of plywood, furniture, flooring and structural timber to Japan each year. The case of Romania shows that a trade flow that may be relatively small for Japan can still have a disproportionate negative impact on countries around the world.

Major timber consumers including the EU, US, and Australia oblige companies to carry out due diligence to confirm the legality of the timber products they place on markets. Japan must align legislative efforts underway with high standards being set in in other major timber consuming countries, Japan needs to effectively prohibit the trade in illegal timber, require companies to implement robust due diligence measures that are proportionate to the level of risk of illegal logging, and impose dissuasive penalties for noncompliance. Enacting strong mandatory legislation now would also help to fulfill Japan’s recent commitments in the environment chapter of the Trans-Pacific Partnership to combat and prevent illegal timber harvest and trade.

SECTION 4.2 PAPER-BASED DUE DILIGENCE SYSTEMS ARE NOT ENOUGH

The case of Schweighofer illustrates the need for due diligence measures to go beyond simple paper-based documentation systems. In a recent report released in April, 2016, a consultancy hired by Schweighofer described the company’s new control systems based around paper documentation, as such, its scope did not consider the wealth of evidence of illegal timber that has reached Schweighofer’s supply chains over the past decade, nor any evidence in the public domain from the ongoing Romanian government and the FSC investigations into the company. Schweighofer’s expansive sourcing structure complicates proper due diligence in such a high risk environment as Romania. The company owns relatively few forests itself – only around 2% of its Romanian supplies come from its own forests. Instead, the company depends on over 1,000 separate suppliers across Romania to fill the enormous needs of its three sawmills, which in 2014 consumed nearly a third of all softwood logs harvested in Romania. Many of these suppliers are middlemen, traders who buy logs from other companies. At least one third of Schweighofer’s Romanian logs come from depots, including Sarawak, Indonesia, Russia and China sell hundreds of billions of yen worth of plywood, furniture, flooring to Schweighofer which are relevant to these factors, as did the Romanian government when it investigated the company.

Instead, risk assessment under Schweighofer’s due diligence system is based on the company’s FSC Controlled Wood certification. The consultant’s report notes that, “organizations compliant with FSC forest management or controlled wood certification are considered low risk suppliers.” Instead, the FSC itself states very clearly that FSC certification alone is not accepted as proof of compliance, noting that “several national competent authorities appear not to accept FSC certification as sufficient evidence of negligible risk.” According to the consultant’s report, Schweighofer requires no further evaluation for any suppliers with an FSC controlled wood certification. Other suppliers must provide paper documentation showing legality – in a country with widely-recognized problems of forged documentation. EIAs 2015 report quoted CEO Gerald Schweighofer in an interview with Austrian press, referring to the legality of its suppliers’ documentation, “if they are fake or not, cannot be verified.”

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The actions of Schweighofer in Romania are having a serious impact on illegal logging and forest sector governance in Romania. The evidence is clear. A recent Romanian government investigation found evidence of over a hundred thousand cubic meters of timber in just one of their mills, as well as evidence that Schweighofer employees were involved in organized criminal groups for the purpose of obtaining illegal timber. The government’s investigation is still ongoing.

EIA, other NGOs, as well as Romanian and international media have shown again and again numerous examples of illegal timber which ended up in Schweighofer’s mills. EIA’s undercover video showed Schweighofer’s top sourcing officials knowingly accepting illegal timber. The top official who spoke with EIA, the Austrian in charge of setting up and managing Schweighofer’s Romanian sourcing operations for more than a decade, has now been fired by the company.

Romania is a country in transition, with a people and government struggling to push off the corruption of its Communist era and post-Communist past. Street protests in 2015 helped to push through a newly revised forest code later that year. Implementation of this new law is ongoing, and there are signs of improvement — a newly restructured, well-funded Forest Guard, a more complete electronic timber tracking system with mechanisms for community engagement.

But far more needs to be done, and much stronger efforts will be necessary to bring real reform and transparency to the forest sector. These changes cannot take hold if money continues to flow freely to the organized criminal mafias which hold sway in so many of the country’s forests. The foreign buyers of Romania’s timber — in Japan, the EU, the US and the Middle East — need to put pressure on companies in Romania to stop buying illegal timber. Schweighofer’s buyers should cancel their contracts with the company, until the company is able to show their customers and the public in a fully transparent manner that they no longer deal in stolen timber. Only when money has stopped flowing to corrupt timber mafias across the country can Romania hope to gain control over its forest sector.

The same impacts that are happening in Romania’s forests are happening in countries around the world, but on a far larger scale. Japan sources millions of cubic meters of timber every year from regions and countries like Sarawak, Indonesia, and Russia, where illegal logging is having devastating impacts on forest-dependent peoples, fragile ecosystems, and the future development of sustainable forest industries. All other developed nations have taken action to make their companies obey the laws of the countries that they source from. The EU, US, Australia and Canada all have laws in place prohibiting the import of wood products made from illegally sourced timber, most of these nations also require their companies to perform mandatory due diligence to avoid buying illegal timber.

The time has come for Japan to join this global movement. Japan must enact mandatory due diligence requirements on its companies sourcing wood products overseas. The impact of due diligence on reshaping wood products supply chains multiplies as more nations and more companies practice it. Without Japan’s help, there is a risk that this emerging global standard will not achieve its full potential in reforming global markets. The Japanese government has a responsibility to join other developed nations in these efforts, and to protect Japanese consumers from being the unwitting drivers of illegal logging in Romania and around the world.

**CONCLUSION**

**RECOMMENDATIONS**

The Government of Japan should:

1. Enact a prohibition on imports of illegally sourced timber with robust due diligence requirements and dissuasive penalties;

Japanese companies buying from Schweighofer should:

1. Cancel all contracts with Schweighofer until the company can prove clearly and transparently that it no longer deals in illegally sourced timber;
2. Ensure rigorous due diligence and compliance measures are fully upheld to avoid purchasing illegally sourced wood products.
WORKS CITED


2. Ibid.


7. Ibid.

8. Ibid.

9. Ibid.


11. Emergency Ordinance 32/2015 on the establishment of forest guards. (2015). Official Gazette no. 470/06.05.2015, notes a study by the Romanian National Forest Inventory which concluded that 8.8 million m³ of timber was cut illegally each year between 2008 and 2014—equivalent to 49% of the timber cut during this period. Between 2008 and 2014, the Romanian National Institute of Statistics (INS) recorded that operators harvested 125 million m³ of timber.


16. EIA, 2015. Stealing the Last Forest: Austria’s largest timber company, land rights, and corruption in Romania.